Canadian Transport Commission
Commission canadienne des transports

Air Transport Committee
Comité des transports aériens

Summary of Evidence

presented at Hearings
on
the Adequacy of Air Services
in Northern and Remote
Areas

Canada

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CANADIAN TRANSPORT COMMISSION
Air Transport Committee
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INTRODUCTION

As a result of the announcement in late 1983 of a public hearing on air fares, northern and remote communities raised additional concerns about the costs of air transportation services. Community leaders expressed the view that inhabitants of northern and remote areas may be cross-subsidizing lower scheduled service air fares as well as the various discount fares and giveaway bonus plans so widely available in the south. They also voiced concerns about the possible tariff increases which could accompany more pricing freedom in the northern and remote areas where there is perhaps insufficient traffic to maintain effective competition.

The Air Transport Committee (ATC) therefore decided to conduct a review of the costs of air transportation in northern and remote areas as soon as possible after the public hearing on air fares. Issues to be addressed included: the demand for air travel within these areas; air carrier principles and practices in the construction of domestic air fares, cargo rates and charter plane-load rates; the effect of competition on unit toll and charter operations; justification for changes in tolls; travel restrictions associated with domestic discount air fares and air freight rates; solicitation and sale of domestic air transportation; promotional policies and practices in respect of domestic air fares; and other regulatory and policy recommendations in respect of air fares and cargo rates applicable to, from or between northern and remote areas.

The present report summarizes in chronological order the evidence presented at the hearings. The panel consisted of R.J. Orange, Chairman, J.-L. Bourret, Commissioner, and D.H. Chapman, Commissioner.

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LOURDES-DE-BLANC-SABLON, QUEBEC, TUESDAY JUNE 5

Pierre Rivest, directeur, ministère des Transports du Québec

Mr. Rivest indicated that the Government of Quebec, long preoccupied with the issue of air transportation on the Lower North Shore, initiated a series of meetings with the local population in 1981. Six major problem areas were identified at that time:

1. unreliable schedules;
2. inadequate flight connections at Sept-Îles;
3. unreliable reservation systems;
4. inadequate passenger information in cases of delayed flights;
5. inadequate airport facilities; and
6. poor navigation systems.

Although many of these problems are the responsibility of the federal government, the Government of Quebec has taken the following actions:

a) construction of a new airport at Saint-Augustin to accommodate HS-748 aircraft at a cost of $3 million;

b) signing of an agreement with Regionair, now merged with Quebecair, whereby the government would contribute to the acquisition of equipment and subsidize operating losses; these costs amounted to $1.8 million in 1983, or $90 for each of the 20 000 passengers carried;

c) close monitoring of the carrier's operations;

d) leasing by the government of two HS-748's to the carrier; and

e) implementation of reduced fares already in effect elsewhere on Quebecair's network.

According to Mr. Rivest, the public is satisfied with the improved service; however, infrastructure problems have still to be resolved by Transport Canada.

The high cost of transportation of food and perishable items is a problem where financial help from the federal government should be extended, as is already the case for shipping.

Mr. Rivest concluded by stating that increased competition should not be encouraged, but that existing carriers should have to justify their fares and be responsible for the quality of their services. The CTC should listen to the Government of Quebec's interventions when rationalization of service is at stake.

In his cross-examination of Mr. Rivest, Mr. Look for Quebecair emphasized the extension to the North Shore of Quebecair's reduced fares, with discounts of up to 55% being available for round-trip excursions and of 65% for senior citizens.

In response to cross-examination by Ms. Burnham, Commission counsel, Mr. Rivest stated that the HS-748s cost the Quebec government $900 000 per year and that the subsidy to Quebecair does not contain incentive schemes to improve costs. As to the financial involvement of the federal government, Mr. Rivest gave no number but referred to shipping subsidies. He did not disagree with a bidding system for granting subsidies, but indicated that such a system is not employed because of licensing difficulties.

Jean Moyen, directeur général, Centre de santé de la Basse-Côte-Nord

Mr. Moyen asserted that the 10 000 people living on the Lower North Shore have the right to live the same life as other Canadians; when it comes to transportation, these people have been neglected as they have neither adequate roads nor adequate air services. Air transportation on the Lower North Shore is a necessity and not a privilege. There are currently no balanced services because of the monopolistic situation which prevails in air transportation, the region's sole public transportation system.

The transportation of sick persons in particular is a major problem. The string of villages along the Shore cannot have full health services and therefore a good system of emergency transportation is vital. However, Blanc-Sablon has no Instrument Landing System (ILS) and therefore the evacuation of sick or injured people to St. Anthony's Hospital (60% of all patients) cannot be ensured at all times. Furthermore, the inadequacy of the transportation system makes it difficult to recruit and keep good physicians.

Air fares are very high, being $641 from Blanc-Sablon to Québec, $683 to Montréal and $453 to Sept-Îles. They are not accessible except to subsidized travellers. Air freight is also expensive and the population cannot be blamed for drinking more beer than milk. Mr. Moyen recommended that:

a) air transportation be officially recognized as an essential service;

b) any community not served by a road be equipped with an airport;

c) Blanc-Sablon airport be equipped with ILS and facilities to accommodate airline-type aircraft; and

d) air transportation be the only subsidized mode.

Mr. Moyen also asked the Air Transport Committee to set up a committee to monitor the quality of air services in the region and further suggested that:

a) the supply and quality of essential commodities be ensured year-round;

b) airline schedules be constructed with convenient connections via Gander or Québec;

c) local air hubs be identified along the Lower North Shore and small aircraft bases be relocated accordingly; and

d) the Air Transport Committee maintain a presence in the region.

Cliff Joncas, président du Comité des transports de Lourdes-de-Blanc-Sablon

Mr. Joncas stated that air fares are too high and that not more than 10% of travellers pay for their trips themselves; the balance of users travel at the expense of the government or are employed by major companies. He added that the fare structure is irrational.

Mr. Joncas expressed the opinion that the Lower North Shore did not contribute to the $20 million lost by Quebecair in 1982 since Quebecair's representatives stated at a meeting that the Blanc-Sablon/Sept-Îles service was profitable. Mr. Joncas quoted a few examples of the high cost of air freight (up to 44% of a grocery bill) and stated that air freight rates block the development of fisheries. He concluded by saying that the population is not interested in knowing the sources of the problems but rather wanted solutions: reasonable services at a reasonable cost.

During cross-examination, Mr. Look for Quebecair indicated that the high cost of air freight can be explained by

the fare structure which imposes a minimum rate. As far as passenger fares are concerned, Mr. Look stated that these fares reflect the type of aircraft utilized, that is the HS-748 rather than the B737.

Armand Joncas, Private Citizen

Mr. Joncas stated that Propair services are very poor and that their safety is questionable. He suggested that these services should be investigated.

Mr. Joncas questioned the formula used by Quebecair in calculating the fares applicable to the Lower North Shore. He also mentioned that the schedules are such that it takes three days to complete a round trip between Blanc-Sablon and Saint-Augustin.

Gladys Lavallée, School Committee, Lourdes-de-Blanc-Sablon

All students above the seventh grade have to leave Blanc-Sablon. Air services are therefore essential to them, but currently their quality is not adequate, especially in terms of schedule reliability. Ms. Lavallee cited circumstances when planes could not land at Blanc-Sablon with the result that children were stranded at Sept-Îles or Chevery.

GOOSE BAY, NEWFOUNDLAND, WEDNESDAY JUNE 6

Group representing the Joint Councils of Labrador City, Happy Valley-Goose Bay and Wabush

- Kenneth L. Nelson, Town Clerk, Happy Valley-Goose Bay
- Herbert Brett, Town Councillor, Happy Valley-Goose Bay
- Dennis Conway, Town Councillor, Happy Valley-Goose Bay
- Len Leyte, Town Councillor, Labrador City

In a four-page prepared presentation, the group made the following points:

1. Labrador represents a great potential market for air travel. The two major population centres are served by large, well-equipped airports while the coastal communities are receiving up-graded airport facilities. Isolation and lack of ground

transportation facilities create a captive market, while the tourism potential of the area is only starting to be developed.

2. The existing services offered by the air carriers are not properly integrated, with the result that travel within Labrador and to outside points is costly, time-consuming and often quite inconvenient. This discourages business and pleasure travel and hampers the tourist trade.

3. Deregulation in southern Canada is causing serious concerns and questions in the north, including the following:

   a) Will competition between air carriers, now virtually non-existent in Labrador, continue to be stifled?

   b) Will travel costs increase as the present carriers compete in the free zone to the south, and pass along losses to the regulated north?

   c) Will the north face reduced flight frequencies or substitution of smaller, slower aircraft on long runs?

   d) Will airport facilities suffer as new programs announced for the deregulated zone siphon off federal funding now used for construction, maintenance and upgrading of northern facilities?

The group suggested that the ATC should implement policies and/or regulations with the following objectives:

1. Daily connecting flights between major centres in Labrador and the island portion of the province should be provided by jet aircraft.

2. Increased access to protected routes should be given to carriers in order to increase frequency and level of service on both scheduled and charter routes for passengers and cargo.

3. Changes to routes, schedules or rates should require a public hearing or appeal process, with the hearings to be held in Labrador.

4. Continued improvements in air traffic control, navigation aids, fire fighting and other facilities should be made, especially for coastal communities.

5. Transport Canada should be encouraged to make concessions on airport taxes, landing fees and transportation taxes for northern and remote areas, on condition that these savings be passed along to the consumer.

6. Prices charged should be linked to the maximum-minimum formula proposed for southern deregulation.

7. Discounts, special fares and indirect rebates similar to those available in the south should be offered on flights in the regulated zones in order to stimulate travel.

8. Priorities should be established for travellers from northern and remote areas, permitting them access to connecting flights to other centres.

9. Air carriers should be required to provide uniform levels of in-flight services on northern and southern routes.

10. Air carriers should be required to offer joint fares on inter-connecting flights at a rate not exceeding the published tolls for a direct flight.

The group emphasized the fact that residents of Labrador depend on air travel for commercial, social and medical necessities. Any lessening of service or increase in costs has a direct influence on the public and contributes to the feelings of isolation already present in all remote and northern communities.

In response to cross-examination by Ms. Burnham, counsel for the Commission, and by the commissioners, the group amplified many of the points made above:

1. Although discount fares are offered in the north, the number of seats allocated is very limited.

2. In-flight services in the north are generally of much lower standard than those customary in the south.

3. Although the group favoured deregulation in the sense of promoting increased competition, it was concerned about some of the adverse consequences on smaller communities in the U.S. For this reason, it felt that increased competition should be constrained by economic reality to ensure that no individual airline would suffer financially.

A specific illustration of the complexity of the issue was the possibility that Eastern Provincial

Airways (EPA) might reduce service between Goose Bay and St. John's if a competing service offered by Labrador Airways were too successful. This would have an adverse effect on service between Goose Bay and Wabush in western Labrador since Wabush is served by continuations of EPA's St. John's-Goose Bay flights whereas Labrador Airways does not operate on the route.

4. Availability of seats on all flight legs of a desired routing is a serious concern. On multi-stop flights or journeys requiring a connection between flights, it is often not possible to obtain seats on all flight legs without extended stop-overs at intermediate points. Thus, a passenger wishing to fly from Goose Bay to St. John's can find that a seat is available from Goose Bay to Gander but that all seats on the next leg from Gander to St. John's are already fully booked.

5. Although some of the services to places like the Maritimes operate at very inconvenient times, the fares charged are the same as on more convenient flights.

6. Lack of coordination of schedules between airlines can result in very poor quality connections, particularly in view of the low frequency of flights on many routes. An example was quoted where passengers wishing to fly from Québec to Churchill Falls via Wabush in the past have found that the Quebecair flight from Québec arrived at Wabush half an hour after the EPA flight for Churchill Falls left Wabush, thus forcing a stop-over of a couple of days.

7. Examples were mentioned of air journeys where the fare charged varies considerably with the routing used. The problem arises when two airlines have not agreed to a joint fare for a particular routing thus forcing the fare to be calculated as the sum of the fares for separate parts of the journey.

8. Although the group had emphasized the use of jet aircraft as desirable between Labrador and Newfoundland, it agreed with the Chairman that the concern was primarily one of time. If turbo-prop aircraft could compensate for their slower speed by reducing the number of stops on a route, the resulting service could also be acceptable.

9. One concern with the possible loss of jet service is a reduction in space available on jet aircraft for freight, in particular, mail.

August Anderson, Executive Director, Labrador Inuit Association of Nain, accompanied by Randy Sweetnam

Mr. Anderson indicated that the association represents approximately 2 500 Inuit and Settler residents of the north coast of Labrador. Apart from service by CN Marine for four months in the summer, access to the north coast for both passengers and cargo is by air. For many years, service was provided solely by Labrador Airways offering a three-times weekly service from Goose Bay on skis, wheels and floats under a Class 3 license. As a result of considerable dissatisfaction with the service provided by Labrador Airways, the Labrador Inuit Association asked the CTC in 1982-83 to conduct hearings on the cost of service to the north coast. In the last two years, several changes have occurred:

a) airstrips have been provided at two communities to add to the two already in existence;

b) Air Inuit has received a license to connect Nain to Kuujjuaq (Fort Chimo) in northern Quebec and points north;

c) Labrador Airways has changed ownership and the number of complaints has dropped sharply; and

d) a provincial transport subsidy to Labrador Airways has been raised from $150 000 to $450 000 per year to provide service to the Labrador coast.

Mr. Anderson indicated that the major problem with air transportation is cost, a situation that applies across the north. A second problem is the lack of a consistent level of service in areas such as scheduling, over-booking and timely delivery of cargo. A third problem that may now be arising is the interface between regulated service in the north and deregulated service in the north; in particular, there may be difficulties in areas such as scheduling, ticketing, joint fares and aircraft type. To respond to these problems, the Labrador Inuit Association recommended that a Northern Transportation Authority should be set up within the CTC with the following mandate:

a) to develop a northern transportation system to compare with the national transportation grid in the south;

b) to determine the distribution of transport subsidies to equate transport costs in the north with those in the south;

c) to promote such programs as standby and special group fares; and

d) to synchronize northern schedules in order to facilitate travel in the north.

The Authority should include northerners familiar with the province. One of its first tasks would be to examine the classification of licenses in the north, with a view to establishing more accountability on the part of the air carriers. Mr. Anderson suggested as an example that an air carrier landing on wheels on an airstrip with navigational aids available should have a greater responsibility to maintain schedules than a carrier which lands on skis and floats without the use of navigational aids.

In response to questions from the commissioners, Mr. Sweetnam indicated that the Labrador Inuit Association has not considered how the north should be defined. He also suggested that weather conditions were such that a typical community on the north coast could receive air service on an average of about two days a week.

Group representing Churchill Falls

- Francis C. Clarke, Town Manager
- Jack Murphy, Airport Manager
- Randy Pitcher

Mr. Clarke emphasized that his group did not necessarily represent the views of the Churchill Falls Labrador Corporation which owns the town of Churchill Falls.

Apart from very limited use of the Quebec North Shore and Labrador Railway, access to the town is by air. Air service has declined as the population of Churchill Falls has dropped from a peak of 6 000 during construction to the current level of 1 000. The major concerns of the community are with frequency and, to a lesser extent, with in-flight service. EPA at present offers two flights a week, one on Wednesday, one on Friday. The community feels that three flights a week would provide a more adequate service, including the handling of mail. EPA recently changed the routing of one of its two flights so that instead of both flights flying Goose Bay to Churchill Falls to Wabush, one flies in each direction. This has eliminated some problems but created others. For example, the number of connections at Wabush for travel from Churchill Falls to Montréal has dropped from two

to one, but now for travel in the other direction, there is the opportunity of connecting at Wabush instead of being forced through Goose Bay, a routing that requires over-nighting.

Per capita travel by air is among the highest for any community in Canada, assisted in part by benefits provided by the Churchill Falls Labrador Corporation. It is made particularly expensive by the need to over-night on most trips, sometimes for more than one night.

Mr. Murphy indicated concern that under deregulation, EPA may stop serving Churchill Falls. He wondered if Labrador should plan for a switch from the jet service offered by EPA to service in smaller, turbo-prop aircraft by airlines such as Labrador Airways or Air Schefferville feeding into a hub or hubs. He also expressed concern about the fact that air fare discount programs were not universally available and quoted the example of a frequent-flyer program just introduced by Quebecair between Montréal and Québec and between Montréal and Toronto but not out of Wabush where some of the flights originate.

Mr. Pitcher confirmed that deregulation is a cause of widespread concern in communities such as Churchill Falls in view of the U.S. experience that some communities have lost all service. He also amplified concerns expressed earlier in the day about access to discount fares; in particular, he emphasized the problems created by a lack of joint fares, such as circuitous routings.

In cross-examination, Mr. Look for Quebecair pointed out that frequent-flyer programs are recent innovations and are being experimented with. In the meantime, Quebecair has an attractive discount fare available out of Wabush.

In response to questions from Mr. Patey for Labrador Airways and Ms. Burnham for the Commission, Mr. Clarke indicated that more frequent service is more important to him than flying in a larger aircraft, provided that at least some reasonable level of comfort is offered by the smaller aircraft. The group was uncertain about the implications of smaller aircraft on the handling of freight and mail.

The group confirmed to Ms. Burnham that getting seats on flights out of, and in particular back into, Churchill Falls was a problem at times. The Churchill Falls Labrador Corporation helps out by making seats on its own aircraft available whenever possible to employees who have been bumped from commercial flights. Access to information on discount programs, etcetera was confirmed as another problem.

In cross-examination, Mr. McCabe for EPA established that on occasions the airline diverts flights to deal with groups of passengers and adds extra sections. He also pointed out that

all of EPA's discount programs apply to northern services except for those meeting fares filed by Air Canada in competitive markets.

Brendan J. Sullivan, Government of Newfoundland and Labrador

Mr. Sullivan started by pointing out the very unstable and uncertain environment within which the airline industry is trying to operate today and suggested that it was incumbent upon the federal government to redress this problem and find an acceptable solution.

The province at present has six major airports serving a population of over 550 000. One national, two regional and several local carriers serve the widely dispersed market.

Two major issues in the regulatory policy debate must be addressed:

1. the possible impacts that the proposed changes to domestic air carrier policy may have upon local carriers serving all areas of the province. Account must be taken of the unique geography of the province and its relative isolation, which make the province particularly dependent on the air mode; and

2. the future of economic regulation of air carriers in the north and possible relaxation of these regulations. The Newfoundland government is in favour of some deregulation in the north, as long as any measures adopted fully address the concerns and wishes of the people of Labrador.

In elaborating on the first issue, Mr. Sullivan suggested that the role of some of the smaller carriers will become more important if EPA reduces service to many locations. He expected this to happen as he judged that the airline has been unwilling to respond to concerns expressed by residents of places such as Happy Valley-Goose Bay. He gave several examples of inadequate service similar to those described earlier in the day by previous witnesses. The Newfoundland government contends that, as a result of the continued deterioration in the service provided by EPA, the level of service to, from and particularly within the province is at an irreducible minimum; it is therefore prepared to support applications by other carriers to maintain and improve the level of service.

In expanding on the second issue of economic regulation in the north, Mr. Sullivan made the following points:

1. Entry restrictions should be eased for new route applications and for local service operators. Local carriers should be permitted to compete head-on with the national and regional carriers on any route presently served or contemplated within the province, except on routes to coastal Labrador.

2. Because of the long history of inadequate and unreliable service on the monopolistic routes to coastal Labrador, the CTC should monitor the level, quality and cost of service. Public hearings should be conducted when requested by residents of the coastal communities. The operating subsidies currently funded by the provincial government should be paid by the federal government instead.

3. In evaluating license applications, the CTC should de-emphasize the public convenience and necessity criterion. Instead, existing carriers should shoulder the responsibility of showing that a new service would be harmful.

4. Limitations on the size of aircraft that a given carrier can operate should be eliminated.

5. Other license restrictions, such as the granting of different classes of licenses for the same geographical market, should be carefully reviewed.

6. Rules covering mergers and acquisitions should be simplified to allow individual carriers to grow and become more efficient.

7. In view of the uncertainty surrounding the impact of deregulation on fares, particularly on low-density routes typical of most of the province, a middle-of-the-road approach should be adopted, which accommodates the basic objectives of the free enterprise system while minimizing the risk of dramatic changes adversely affecting the travelling public and the airline industry. Although the CTC should reduce its involvement in the regulation of air fares, it should still be permitted to set maximum and minimum rates. It should also be required to monitor changes in the structure of air fares and be empowered to act if there is evidence that the lesser populated regions are experiencing higher fares than in the past or are being required to cross-subsidize more competitive routes.

8. The fences on discount fares such as Advance Booking Charters should be limited to a minimum stay requirement and an advance booking period.

Under cross-examination by Mr. McCabe for EPA, Mr. Sullivan confirmed that a corollary of the easing of restrictions on entry to markets is that carriers should be free to exit markets on suitable notice, such as 60 days.

Under cross-examination by Ms. Burnham for the Commission, Mr. Sullivan indicated that, while deregulation was expected to encourage competition and thereby improve service to many communities, the government has a responsibility to ensure that service to communities such as Churchill Falls is maintained. His government's proposal that the CTC set minimum fares as well as maximum ones was intended to ensure a minimum amount of disruption in particular markets, for example, by reducing the possibility of airline bankruptcy.

Alex Saunders, General Manager, Torngat Fish Producers Association

The cooperative covers the entire coast from Rigolet to Nain. It has approximately 400 members and employs between 250 and 600 people during a busy season. The principal concerns of the members with regard to air transportation relate to the movement of fresh fish. These fish come from Rigolet by boat to Goose Bay for onward air shipment and represent about a third of the total operation. Two issues were of particular concern:

1. Cost of Air Freight. Members of the cooperative pay much higher rates than do people on the island part of the province or in other parts of Canada. Mr. Saunders estimated that a 35% subsidy would be required to bring rates in line with those charged by Air Canada.

2. Availability of Space. On occasion, EPA is unable to take the confirmed amount of fish on its flights out of Goose Bay. This happens regularly each year during a two or three week peak season.

With better rates and more dependable service, Mr. Saunders considered that the movement of fresh fish could be increased considerably thus benefitting the north coast communities.

Mr. Saunders made the following suggestions:

a) that helicopters be used to add to the services to the coastal communities, as happens in Greenland;

b) that the CTC set maximum rates for freight coming into and going out of Labrador; and

c) that the CTC devise a procedure for handling complaints more quickly than occurs at present.

During cross-examination, Mr. Patey for Labrador Airways pointed out that a Department of Transport study held approximately in 1975, concluded that the use of helicopters to provide service on the coast would be much more expensive than the use of fixed-wing aircraft.

Under cross-examination by Mr. McCabe for EPA, Mr. Saunders agreed that the amount of fresh fish to be shipped by air varied considerably from week to week but indicated that the problem of space to which he was referring was one where EPA was unable to provide the space specifically agreed to for a particular day. In a discussion on freight rates, it was unclear whether Mr. Saunders' estimate of the requirement for a 35% subsidy was based on rates per mile or on total rates to specific markets.

Gilbert Patey, President, Labrador Airways, assisted by Paul Lannon

Mr. Patey started by pointing out that service to the coastal communities is seriously affected by poor weather in a way which just does not apply to other centres such as Goose Bay and Labrador City. With reference to mail service to Churchill Falls, he pointed out that Labrador Airways had been able to cope with all the mail last January and February when it replaced EPA's Boeing 737 jet service with services by Twin Otters and Queenairs.

The problem of isolation from reliable air services for the coastal communities is gradually decreasing as small airstrips are built and Twin Otters are introduced to replace single engine float and ski-equipped aircraft. The airstrips are being developed under a federal government program for social reasons rather than in response to increased economic activity. Indeed, economic activity has lessened over the past few years with significant population declines occurring in Goose Bay and western Labrador. The coastal areas served by Labrador Airways to the south, east and north of Goose Bay have some 700 miles of coastline and a population of about 7 800, excluding Goose Bay. Except for a few months in the summer when sea access is possible, air is the only available transport mode. Most of the flying is carried out on a Visual Flight Rules basis, much of it still with float and ski-equipped aircraft.

Mr. Patey stated that in this social and economic environment, regular air service would not take place without a direct operating subsidy. The provincial government provides this to ensure regular service three times a week year-round,

although the actual traffic could easily be handled by two flights or less in each direction. Without the subsidy, air fares would double from 49 cents per passenger-mile to about $1.00. Mr. Patey expressed bewilderment that the federal government does not recognize the importance of the services offered by carriers such as Labrador Airways and will not provide subsidies unless the services have good prospects of long-term financial viability. Licensing of additional carriers for Class 3 or Class 4 service would have a disastrous result in a market already over-supplied with seats. If nothing else, it would simply result in a need for increased subsidies.

Labrador Airways proposed that significant changes be made to the way in which freight is shipped into Labrador. In particular, it recommended that the heavily subsidized water-based routes from St. John's and Lewisporte used in the summer and the very expensive air-based routes from Halifax and St. John's used in the winter be changed to utilize the new airport under construction at St. Anthony at the northern end of Newfoundland with access to St. Anthony being by road.

In response to cross-examination by Ms. Burnham for the Commission, Mr. Patey made the following points:

1. He favoured deregulation in the inland of Labrador. Specifically, he wished to see access eased and certain restrictions removed from existing licenses, such as the restriction which prevents Labrador Airways from carrying local passengers between St. John's and Gander.

2. He confirmed that most freight is carried north or east with almost none going south or west.

3. He indicated that the provincial subsidy is provided directly to the airline in cash form. No consideration had been given to indirect subsidies such as the province owning the aircraft and providing them for use by the airline.

SEPT-ÎLES, QUEBEC, THURSDAY JUNE 7

<u>Richard Look, vice-président,
Développement des marchés, Quebecair</u>

Mr. Look described Quebecair's services on the Lower North Shore. They involve short distances and require both ski and float operations and helicopter operations. Many of the small settlements served by Propair under a service contract lack facilities.

Mr. Look stated that the new air transportation policy contained new opportunities for Quebecair. He added that northern areas should not be deregulated. As far as air fares are concerned, Quebecair agrees with the new elements of flexibility introduced into the regulations.

In the area of route protection, Quebecair advocates a very strict enforcement of the regulations by the Air Transport Committee. In his conclusion, Mr. Look recommended:

a) an immediate enforcement of flexible regulations related to reduced fares, deep discounts, fare basing and filing rules;

b) a strict enforcement of existing route and base protection rules;

c) an indepth study of route protection clauses;

d) a stepping-up by Transport Canada of its facilities improvement program on the Lower North Shore;

e) a review of the fuel taxation system; and

f) a review of the management structure of airports in order to reduce costs.

During cross-examination by Ms. Burnham, counsel for the Commission, Mr. Look stated that the number of deep discount seats on the Lower North Shore is based on the surplus seat management system.

The subsidy paid by the provincial government to Quebecair takes into consideration the subsidy of about $600 000 paid by the federal government. Mr. Look could not indicate if any cross-subsidy exists between Quebecair's different services.

The fare structure in place on the Lower North Shore is empirical and is different from the formula used elsewhere on Quebecair's network. The whole matter is currently under review for possible streamlining, but discount schemes have already been extended to the Lower North Shore.

Quebecair is planning to reduce the number of aircraft types it utilizes, but does not plan to pull out of small communities served under contract by Propair even if other carriers were to show interest in providing services. According to Quebecair, such carriers would aim at serving only major points thus destabilizing the existing fragile network.

In response to Commissioner Bourret, Mr. Look indicated that he does not believe an increased level of competition on the Lower North Shore would benefit the local population; the volume

of traffic is too small and the level of economic activity too low.

Mr. Look advised Chairman Orange that of the ten points served on the Lower North Shore, five are served by Quebecair and five by Propair on behalf of Quebecair. According to Mr. Look, Propair could possibly operate under its own licenses after the termination of the service contract in 1985.

The matter of facilities was then discussed and Quebecair was asked to submit to the Commission its assessment of the required facilities.

Mr. Look reiterated that the Lower North Shore should not be deregulated and then indicated that Quebecair is concerned with the addition of a new flight by Air Canada between Québec and Sept-Îles.

Michel Leblanc, président, Conifair Aviation Inc.

Mr. Leblanc submitted that there are great similarities between some areas south and north of the 50th parallel. They have the same discretionary markets, the same tourism markets related to fishing and hunting, and the same seasonal cycles. Mr. Leblanc was pleased with the performance of his Mont-Joli/Port-Menier service and predicted that traffic would increase from 3 000 to 6 000 hunters between 1982 and 1985. This success confirms earlier contentions by Conifair that a specialized type of service was required, as is the case in Schefferville for which an application is now before the Air Transport Committee.

Mr. Leblanc submitted that ABC charter flights can accomplish the same results in these markets as unit toll services and he considered that the new policy allows ABC's in northern Canada. However, the requirement that passengers must spend at least one Sunday at their destination cannot be accommodated within the constraints of the outfitting market; furthermore, the paperwork involved is not affordable by a small carrier.

Mr. Leblanc indicated that competition lowered the price of transportation between Mont-Joli and Port-Menier by 33% between 1980 and 1984.

He made the following recommendations:

1. Authorize ABC flights into any remote area to cater to discretionary and seasonal demand.

2. Provide an alternative to the current minimum stay requirement of one Sunday at the destination by authorizing five night stays even if no Sunday is involved.

3. Simplify the paperwork by making ABC rules part of carriers' tariffs and by eliminating the requirement to file ABC contracts with the Air Transport Committee.

4. Recognize the need for competition even in the north and exclude Sept-Îles from the rules applying to northern areas.

In response to Mr. Look for Quebecair, Mr. Leblanc confirmed his interpretation that ABC flights would be authorized anywhere in Canada. Abolishing articles 88 and 89 is not sufficient however. Small carriers cannot cope with the paperwork involved and therefore may be deterred from operating ABC's unless the procedures are simplified.

He indicated that the lowering of the cost of transportation to Schefferville by an average of $350 per hunter is due to his attempt to operate an ABC program. Even if this program has not been operated, its publication has led Quebecair to revise its pricing.

On the matter of year-round versus seasonal requirements into Schefferville, Mr. Leblanc stated that Air Schefferville operates year-round scheduled services but that Quebecair creams the seasonal demand at extremely high prices. Mr. Leblanc submitted that in northern markets, competition could be allowed on a seasonal basis when the demand peaks, and that such competition, as demonstrated by his ABC attempt, is beneficial to the public.

Mr. Leblanc advised Ms. Burnham, counsel for the Commission, that Conifair is strictly interested in the discretionary market. He reiterated his point that the Sunday rule for ABC flights is not practical for his markets; a five day minimum stay is more acceptable and will not dilute business traffic.

Mr. Leblanc indicated that he would like to see flexibility in fares and pricing extended to northern areas.

In reply to Commissioner Bourret, Mr. Leblanc stated that, if competition is allowed, the number of competitors would be determined by economic factors. Year-round scheduled services into thin northern markets should almost necessarily be captive.

Jacques Prud'Homme, vice-président,
Association des pourvoyeurs du Nouveau-Québec

Mr. Prud'Homme described outfitting operations. The season stretches from May 20 to October 1, with services including transportation and shelter. In 1984, 2 500 hunters are expected of whom 30% will come from the U.S.A. Ninety percent of the clients arrive by air and 10% by train. When the Iron Ore Co. was operational, 40% of the clients came by train. Lower air fares will raise the occupancy factor from 75% to between 95% and 100% this year. In 1983, the transportation cost was in the $700 to $800 range, but in 1984 the anticipated competition will bring it down to $350 to $450.

Mr. Prud'Homme indicated that the economy of the area is 90% based on tourism and that there should be more competition to bring prices down. He does not believe that this will affect Quebecair, since during 11 months of the year Schefferville is served by a Queenair operated by Air Schefferville.

During cross-examination by Commissioner Bourret, Mr. Prud'Homme indicated that the reduction in air fares from $800 to $400 only applies to hunters. On the matter of the number of local carriers feeding the outfitting camps, Mr. Prud'Homme stated that two of them (Air Schefferville and Cargair) are operating legally but that 11 others are illegal. Some of the illegal carriers receive fines but these fines are not high enough to act as deterrents. Complaints are regularly filed with the Air Transport Committee but there are no tangible results. Mr. Prud'Homme was not aware that the Committee cannot impose fines and could not say who did impose the fines he had referred to.

He reiterated his view that northern air services should be deregulated.

Lauréat Méthot, Services aux malades de la Basse-Côte-Nord

Mr. Méthot stated that the quality of air services on the Lower North Shore is deplorable and cited a few examples of delays, cancellations and denied boardings involving sick people to be evacuated for surgery.

According to Mr. Méthot, the existing situation is intolerable and the services to sick persons should be drastically improved.

Réjean Rousseau, Chambre de commerce de Sept-Îles

Mr. Rousseau indicated that air services between Sept-Îles and major centres have improved, but that fares are very high. This high cost is compounded by land costs when it is not possible to return the same day.

As far as the Lower North Shore is concerned, the service is unreliable, the facilities inadequate and the fares are prohibitive. The cost of carrying food by air is also excessive.

Mr. Rousseau made the following recommendations:

1. Air fares for passengers and cargo should be lowered.

2. Air services on the Lower North Shore should be considered as essential services.

3. Without going to total deregulation, more competition should be allowed.

4. Specially equipped airplanes should be operated to carry fishery products.

5. Natashquan, Chevery and Blanc-Sablon airports should be equipped with LOC/DME systems.

6. Reasonably priced AVGAS 130 fuel should be available at Natashquan and Blanc-Sablon.

Mr. Rousseau advised Commissioner Bourret that he feared that total deregulation might cause the abandonment of some services.

RANKIN INLET, NORTHWEST TERRITORIES,
MONDAY JUNE 18 AND TUESDAY JUNE 19

Jack Anawak, Speaker, Keewatin Regional Council

The Keewatin Regional Council represents seven hamlets in the Keewatin, of which Rankin Inlet is the largest. The majority of the hamlets, including Whale Cove, Chesterfield Inlet, Coral Harbour and Repulse Bay, are about a third the size of Rankin Inlet.

Mr. Anawak started his presentation by stressing how important the air mode is to the Keewatin for travel of any great

distance. If policies and plans for aviation are not developed with great care, the communities can suffer serious harm. Over the last few years, air service to the area has, on balance, improved but it remains a topic which appears on every agenda of the Keewatin Regional Council.

The smaller communities are particularly dependent on air services because many essential services are not available locally. The air mode is essential to deal with medical emergencies and specialized forms of medical care, to supply vital spare parts when essential equipment breaks down, and to provide other goods when stocks run low in advance of the annual resupply by sea.

Mr. Anawak indicated that the Arctic Air Facilities Policy of the federal government has had a positive impact on the Keewatin communities. The decision to suspend the policy is of concern since the communities do not know the reason for the suspension nor its likely impact.

The Keewatin Regional Council would like to see three changes made to air fares:

a) the introduction of a system which reduces fares for families and senior citizens. Such a system is particularly important in situations where the lack of local medical facilities results in one member of a family, such as a mother-to-be or someone with a terminal illness, being away from home for an extended period;

b) the introduction of student fares. This would ease the economic hardship to families with students attending school outside the region and would encourage social interaction through participation in athletic competitions within and outside the region; and

c) the introduction of special fares for those travelling on public business.

In response to cross-examination from Ms. Burnham, counsel for the Commission, and the commissioners, Mr. Anawak made the following points:

1. The CTC should monitor air services in the north, perhaps through organizations such as the Keewatin Regional Council.

2. Subsidies should be provided for certain passenger fares, such as special fares for families, and for certain cargo rates, particularly for staple commodities.

3. Recent improvements in air services have resulted in an increase in the use of air freight as a substitute for the annual sea lift, partly because this reduces the amount of capital tied up in inventory.

4. Air travel within the Keewatin is important as is air travel to points outside the region.

5. The present scheduled air service is very good.

6. Discount fares are available on direct flights to Winnipeg, Yellowknife and Frobisher Bay.

Anthynie Kadjuk, Vice-President, Keewatin Inuit Association

Mr. Kadjuk indicated that his association has serious concerns about the quality of scheduled air service in the Keewatin Region, in particular to Chesterfield Inlet. The three-times weekly service results in lengthy waits, particularly when poor weather conditions force cancellations. The postal service is poor, while fresh produce is often spoiled by lengthy delays or freezing. Many people living in the area wish to travel more frequently but cannot afford to do so.

During cross-examination by the Commission, Mr. Kadjuk stated that service would improve if more air carriers were in operation, although he accepted that many of the existing problems are a result of poor weather conditions.

Donat Milortok, Vice-President, Tungavik Federation of Nunavut

Mr. Milortok described concerns about the air service offered to Repulse Bay. Calm Air operates a twice-weekly service from Rankin Inlet on Tuesdays and Thursdays. Mr. Milortok suggested that, if the Thursday flight were cancelled for any reason such as poor weather, it would not be rescheduled even if weather conditions improved, thus forcing passengers to wait for days or to charter an aircraft, a very expensive proposition. Vital supplies, such as vehicle parts, are also delayed causing considerable hardship.

Mr. Milortok suggested that those Inuit who cannot speak English can have difficulty obtaining a seat without a reservation even when there is room on a flight and find, on occasion, that no seat is available even if they have a confirmed reservation. The language problem creates difficulties for passengers who are stranded in cities such as Churchill and is exacerbated by the lack of Inuktitut-speaking stewardesses.

The Tungavik Federation of Nunavut believes that a better type of service should be available in the north. Calm Air is supported but requires additional aircraft and replacement of some of its very old aircraft. The Federation would like to see some competition and supports the proposal by Nunasi Corporation for new service.

Under cross-examination by Ms. Burnham for the Commission, Mr. Milortok indicated that it was necessary to make reservations on Calm Air two or three days in advance of travel and that this could be difficult to do because the airline does not have a computer system. He felt that fares were high because of lack of competition.

Peter Kritaquluk, Assistant to the Executive, and David Aglukark, Chief Negotiator, Tungavik Federation of Nunavut

Mr. Kritaquluk pointed out that the Federation's concerns were similar to some already presented to the hearing. For example, it considers air fares and freight rates to be very high throughout the north compared with the south. Increased competition might serve to reduce fares and rates although not necessarily to the level of those in the south. Older people who cannot speak English find air travel difficult and confusing because the various airline procedures have not been translated into Inuktitut, their native language. Mr. Kritaquluk suggested that an aircraft should be based in Eskimo Point, a community of over a thousand people, to deal with medical emergencies.

Mr. Aglukark pointed out that over 50% of the Federation's annual funds from the government are used for travel, much of it on the only local air carrier, Calm Air. He was extremely critical of the service provided by the airline suggesting, for example, that bad weather was used as an excuse for flight cancellations even when this was not the case. He also criticized the lack of special fares from Churchill to Eskimo Point.

In response to cross-examination by Ms. Burnham for the Commission, Mr. Aglukark confirmed that he would like to see discount fares introduced for students and senior citizens, subsidized by the government if necessary. He also expressed concern about a lack of coordination in the schedules of Calm Air and Northwest Territorial Airways.

In response to Commissioner Bourret, Mr. Aglukark confirmed his opinion that more competition between airlines would be healthy as he believed that it would result in lower fares and freight rates and would thus stimulate demand.

Solomon Voisey, Mayor, Hamlet of Whale Cove, assisted by Raymond Kaslak, Secretary-Manager

Mr. Voisey raised the concerns of his hamlet about the services run by Calm Air. He criticized the airline for not adhering to its published schedule, for bumping a Native passenger in favour of a non-Native one, and for poor handling of fresh produce.

Mr. Kaslak raised the concerns of the hamlet about the airport facilities. A ten by fifteen foot wooden building with a stove, window and shelves serves as the "temporary airport terminal"; the weather office is located in Whale Cove whereas the airport is seven miles inland and subject to somewhat different weather, while no telephone and electrical lines are provided between the airport and the hamlet.

Raymond Mercer, President, Keewatin Chamber of Commerce

Mr. Mercer started by emphasizing the critical importance of air service to the Chamber's members in the seven communities of the Keewatin. He advised the hearing that at its last annual general meeting, the Chamber had passed a resolution in which it resolved to advise the Air Transport Committee of "...its strong opposition to the licensing of services that will direct traffic (away) from carriers in the Keewatin, and of its strong opposition to a policy of deregulation of (the) airline industry.".

Over the past many years, airline services in the Keewatin have grown as traffic has grown, with the gradual introduction of larger aircraft capable of handling more bulky cargo. Although the business community has faced problems such as freight being bumped to allow room for more passengers, scheduled air services have improved noticeably.

In response to questions from Ms. Burnham and the commissioners, Mr. Mercer made the following points:

1. Ideally, the business community would like to see more flights and the use of aircraft large enough to handle oversize cargo on a year-round basis.

2. The only way of lowering fares and freight rates is through some form of subsidization, not through increased competition.

3. The Chamber includes Native businesses, which support its position.

Ollie Ittinuar, Chairman, Inuit Cultural Institute of Eskimo Point

Mr. Ittinuar described his concerns about the friction between different groups expressed earlier in the hearing. He felt it important that the groups work together to reach compromises rather than to rely on others to resolve the problems.

Mike Illnik, Private Citizen

Mr. Illnik agreed with earlier testimony that there should be some competition between airlines and that there should be special fares for students, family groups and senior citizens. In response to a question from Commissioner Bourret, Mr. Illnik confirmed that he favoured increased competition within the existing regulatory system.

Joe Barnsley, Counsel for Calm Air, assisted by C.A.L. Morberg, President

Mr. Barnsley started his testimony by addressing issues brought up by previous witnesses and made the following points:

1. Calm Air has filed a discount fare for senior citizens with the CTC as a direct result of discussions involving the Keewatin Regional Council earlier in the year.

2. The issue of discounts for compassionate reasons is a very difficult one. Although the airlines are sympathetic to the financial problems created when people must fly to deal with medical emergencies, etcetera, any costs incurred by allowing discounts would have to be recovered from another segment of the travelling public.

3. Calm Air is being blamed unfairly for spoilage of fresh produce. A recent investigation has shown that at least some 'fresh' produce was already rotten when received by the airline. Freezing can occur throughout the transportation system and not just in the part for which the airline is responsible.

4. The problem of delays is a very real one that cannot be avoided because of the bad weather. The lack of amenities at most of the airport terminals

compounds the inconvenience, while the airlines cannot afford to improve the terminals.

5. The level of demand on most routes is so low that it cannot support daily service or the costs of a computer system for reservations. It also cannot support competition.

6. Varying demands on different legs of multi-stop flights create severe problems. For example, if all seats are booked between Repulse Bay and Coral Harbour on a flight originating in Rankin Inlet then passengers wishing to fly from Rankin Inlet to Coral Harbour are not allowed to board even if seats are available on the first leg; otherwise they could be forced to deplane in Repulse Bay, a community with limited facilities for visitors and where the next flight may not be for two or three days. The problem is exacerbated when passengers with confirmed reservations between Repulse Bay and Coral Harbour do not show so that space would have been available after all.

7. Calm Air's fares are comparable with those charged by other carriers operating similar equipment in similar areas. In some instances, freight rates are lower than those charged for sea lift. The airline finds that it is often blamed for the high cost of items in the remote communities even though its freight charges represent only a fraction of the difference in costs compared to larger communities.

8. The airline utilizes brochures from the Inuit Cultural Institute in its cabins but finds that they disappear quickly. Calm Air also tries to employ Native personnel on its flights, but finds the supply very limited. It has a formal policy of no discrimination between races.

Mr. Barnsley then presented Calm Air's submission. He stressed the vital importance of air service in the area and yet the lack of a high enough population base to justify the levels of service desired by everyone. He emphasized that competition serves to split the traffic with the result that the incumbent carrier must either reduce frequencies or reduce aircraft size to maintain frequencies. The ability of one airline to serve both the passenger and the freight markets is vital to the economic viability of the airline and to the service frequencies which can be offered. In Calm Air's case, 60% of its revenues come from freight.

In Calm Air's opinion, deregulation in the northern area would be disastrous. Some communities would lose service immediately; others would receive lower fares and more frequent service; but only for a while. In the end, the levels of service would drop to those offered ten or fifteen years ago. However, Mr. Barnsley recommended some changes within the existing regulatory system, as follows:

1. The tariff filing process should be simplified and streamlined. In particular, the criteria used in determining whether a fare is acceptable or not should be more clearly defined. Filings should not be required when fares lie within predefined zones of reasonableness.

2. Tariffs should be made law in the sense that customers should be bound by them.

3. Frequent-flyer programs should not be allowed. Most frequent flyers in the area do not pay their own fares and yet would receive a bonus at the expense of those passengers who do pay their own fares.

4. Other forms of indirect rebate should also not be allowed if they shift the costs of air transportation from one group of users to another.

5. Standby fares would not work. Volumes are so low that everyone would be on standby.

6. Discount fares offer a very real danger of diluting passenger revenues without stimulating traffic significantly, with the result that all other fares and rates have to be increased to compensate. This may not be acceptable from the economic point of view of the airline or from a regulatory point of view.

7. Discount rates for frequent shippers are sensible in that any increase in freight traffic results in additional frequencies which benefit passengers. Calm Air is offering guaranteed volume rates which are competitive with sea lift rates and which have generated a considerable increase in air lift.

8. Special rates for non-priority freight shipments are also sensible in that they encourage stability and frequency of service.

9. Route protection provisions should be strengthened to provide better protection for carriers such as Calm Air which are offering low frequency service

on most routes. It is too easy for charter carriers to bypass the regulations in certain circumstances. In addition, many of the airstrips serving the smallest communities cannot be licensed, with the result that route protection is not available at all.

Mr. Barnsley indicated that there is some seasonality in Calm Air's traffic patterns with the main passenger peak being in the summer. Freight flow is essentially all from south to north. Fares and freight rates have been developed on an ad hoc basis and therefore do not adhere to any particular formula. Calm Air faces competition from at least 19 other air carriers licensed to operate charter or unit toll services at the various points served by Calm Air.

In response to cross-examination by Mr. Aglukark for the Tungavik Federation of Nunavut, Mr. Morberg indicated that committees to advise Calm Air, formed of Native people of certain communities, had been discontinued because of a lack of interest. Mr. Aglukark suggested that the communities were indeed interested in participating. Mr. Barnsley pointed out that Calm Air now keeps in touch with the local communities through regional council meetings. Mr. Aglukark suggested that Calm Air often gives priority to freight over passengers, but Mr. Barnsley assured him that this was neither the policy nor the practice of the airline.

Mr. Milortok for the Tungavik Federation of Nunavut repeated both the concern about the discontinuation of the committees of Native people and the suggestion that Calm Air at times gives priority to freight over passengers.

Under cross-examination by Ms. Burnham for the Commission, Mr. Barnsley confirmed that fares in the Keewatin do not conform to any formula. Significant differences between routes reflect varying operational conditions, such as the way in which the routes used to be flown, the way in which they are now flown, the aircraft type or types used, and the availability and cost of fuel. Although, these variations are not reflected in the fares charged in any systematic way, Calm Air tries to be fair in its charges to avoid discriminating against the smaller communities.

Ms. Burnham pointed out that Calm Air's fares varied from $0.31 per kilometre between Rankin Inlet and Yellowknife to $1.24 per kilometre between Rankin Inlet and Whale Cove. Mr. Barnsley stated that the high rate for the latter pair was due to the exclusive use of the Twin Otter which has a high cost per seat-mile. Mr. Morberg explained that the low rate for Rankin Inlet/Yellowknife was a special rate on a route which was being flown to handle passengers between Baker Lake and Yellowknife with a stop in Rankin Inlet to pick up fuel. The

fare matched that of another airline, but had not attracted any passengers.

In response to additional questions from Ms. Burnham, Mr. Barnsley pointed out that on northbound flights, Calm Air tries to fill all space not occupied by passengers with freight in the knowledge that t e return flights will have essentially no freight and therefore much lower overall load factors. In practice, this means that Calm Air has no spare capacity so that discount fares would simply reduce yields. In answer to Commissioner Bourret, Mr. Barnsley estimated that 90% of freight flows north versus 10% south.

Robin Kersey, Counsel for Keewatin Air Ltd.

Mr. Kersey advised the hearing that he agreed with most of the views presented by Mr. Barnsley for Calm Air with the exception of those on route protection and competition with charter carriers. Keewatin Air considers that there has been appropriate enforcement of the regulations and that diversion of traffic from Calm Air has not been on a large scale, at least by Keewatin Air.

BAKER LAKE, NORTHWEST TERRITORIES, TUESDAY JUNE 19

John Hickes, President, Nunasi Development Corporation, assisted by Barney Lamm and Louis Pilakapsi

Mr. Pilakapsi and Mr. Hickes outlined the background to the decision by the Nunasi Development Corporation to set up a new airline, Nunasi Central Airlines. Mr. Hickes gave the following population statistics for the Northwest Territories in 1980:

Baffin Region	8 269
Keewatin Region	4 258
Central Arctic	3 374
Western Arctic	7 564
Total	23 465

The corporation represents these people, who call the area their homeland. Indeed, each Inuit in the Northwest Territories is a shareholder of Nunasi Development Corporation and consequently is a part owner of the new airline. The airline forms one vehicle for investment in the north of monies expected to be received from land claim settlements.

Nunasi Central Airlines, owned 75% by Nunasi Development Corporation and 25% by Mr. Lamm, has acquired Ontario Central Airlines, previously owned and operated by Mr. Lamm. A fleet of 20 aircraft, including seven DC-3's, operates from bases in Red Lake in Ontario, Gimli and Thompson in Manitoba and Churchill. Mr. Lamm indicated that specific plans for expansion in the north had not been finalized. He expressed the view, however, that deregulation in the north would be completely wrong as it would create havoc in the industry. Instead, existing regulations should be changed gradually, for example, to allow for a gradual increase in competition in the area. Mr. Lamm believed that competition in the area from an airline such as Nunasi Central Airlines would eliminate many of the problems which have been described at the hearings. He felt that there was a need for some form of subsidy mechanism to equalize the costs of travel in northern and southern parts of Canada, for example, through the federal government refunding to passengers the difference between a fare paid in the north and the fare that would have been paid for the same mileage in the south.

In response to cross-examination by Commissioner Chapman, Mr. Lamm confirmed that he was in favour of various forms of tax incentive to reduce the costs of items such as fuel and of training people in the north. In response to Commissioner Bourret, Mr. Lamm suggested that local people should have at least the first opportunity of obtaining any new licenses for airline operations in the area.

Michael Amarook, Mayor, Hamlet of Baker Lake

Mr. Amarook stated that Baker Lake is a community which is almost totally dependent on air transportation to move people and goods, the only alternative mode being twice-yearly barges. The air carriers effectively have a transportation monopoly. Air fares are much higher than those below the 60th parallel. For those travellers who must pay their own fares, the costs are often too high, particularly since a 75% level of unemployment means a low level of personal disposable income. The result is that local residents sometimes cannot afford to fly to other communities to be with relatives at times of family crises.

Mr. Amarook mentioned other problems as well:

a) high cargo rates increase the cost of food and dry goods;

b) low flight frequencies and poor connections can turn a visit to Yellowknife for a one-day meeting into a week away from home; and

c) poor weather conditions in the winter can result in a backlog of both people and freight, with the resulting delays being costly to business and government in terms of lost man-hours and sales and of machinery down-time.

Mr. Amarook urged that the Arctic Air Facilities Policy not be suspended. Under this policy, Baker Lake had acquired a new terminal building which had contributed significantly to the provision of transportation services to the community.

Under cross-examination by Ms. Burnham, counsel for the Commission, and the commissioners, Mr. Amarook suggested that experience in the Baffin Region supported the contention that competition would result in a considerable reduction in freight rates from those charged in the Keewatin. He also suggested that one additional airline would probably provide sufficient competition.

SPENCE BAY, NORTHWEST TERRITORIES, WEDNESDAY JUNE 20

S. Alookee, Mayor, Hamlet of Spence Bay, assisted by S. Eetoolook

Mr. Alookee started by expressing concern about the monopoly enjoyed by Northwest Territorial Airways (NWT Air) and presented a collection of complaints from the people of Spence Bay:

1. Air fares are very high. They have doubled within the past five years, an increase greater than that of the cost of living. Many people cannot afford to visit other communities to see their friends and relatives.

2. Freight rates are also very high. Luggage and goods have been lost while many food products have been frozen inadvertently.

3. NWT Air does not employ anyone who speaks Inuktituk.

4. Postal service is too slow.

5. The published schedules are not followed well with many flights being late or being cancelled altogether. Often, local staff do not know just how late a flight will be so that passengers cannot be informed.

6. The airline should use faster and newer aircraft. The journey to Yellowknife in particular is long and tiring, especially for those travelling for medical reasons or with young children. Sometimes the aircraft cabin is too cold or too hot. Also, no hot food or free beverages are provided. Many passengers are scared by having to fly in old aircraft.

7. Some flights reach Yellowknife late in the evening creating problems with check-ins.

In response to cross-examination by Ms. Burnham, counsel for the Commission, Mr. Alookee indicated that NWT Air offers some discounts but that most local, non-English speaking people are not aware of them. In reply to the Chairman, Mr. Alookee suggested that the airstrip at Spence Bay should be made longer to allow the use of larger aircraft, possibly including jets. Mr. Eetoolook stated that the poor quality of the existing telephone service is a serious problem in that it makes it difficult to keep track of aircraft arrival times. Freight reaches Spence Bay by sea lift once a year; otherwise, all freight arrives by air, including mail three times a week on flights originating in Yellowknife.

P. Ookpik, Mayor, Hamlet of Gjoa Haven, assisted by John Ningark

Mr. Ookpik advised the panel that his hamlet's concerns were similar to those just expressed on behalf of the hamlet of Spence Bay. He highlighted the problems of slow aircraft and of high fares and rates, particularly compared with those in the south.

Mr. Ookpik advised Ms. Burnham, counsel for the Commission, that he was not aware of any discount fares and also advised Commissioner Chapman that he would be pleased to meet with the management of NWT Air to discuss the hamlet's grievances. In response to questions from Commissioner Bourret, Mr. Ookpik stated that part of the concern with high fares was the associated slow service. The community would be more prepared to accept the high fares if a faster service were offered; alternatively, it could accept the existing slower service providing fares were reduced. Finally, Mr. Ookpik confirmed to Chairman Orange that Gjoa Haven faced the same problems as Spence Bay regarding telephone service.

Guy Kakkianiun, Mayor, Hamlet of Pelly Bay, assisted by John Ningark

In a presentation read by Mr. Ningark, Mr. Kakkianiun made the following points:

1. Pelly Bay is not accessible by barge so that all supplies must be air-lifted. The result is that the community has the highest cost of living in the Northwest Territories.

2. NWT Air is the only scheduled airline in the region and thus has a monopoly.

3. The only economical way to travel by air is by group charter.

4. The DC-3's used by NWT Air are too slow. It takes eight hours or more to travel from Yellowknife to Pelly Bay. The heating systems on the aircraft do not operate properly with the result that the cabin can be too warm or too cold. On occasion, half-frozen meals have been served and suitcases lost.

5. Discounts offered by NWT Air apply only to routes further south. Fares charged in the north are higher per mile than those in the south.

Mr. Kakkianiun also complimented NWT Air on introducing services where none had been available, thus allowing local people to visit friends and relatives and to obtain proper medical attention.

In response to questions from W. Laserich of Cambridge Bay, Mr. Ningark confirmed that chartering a King Air for a group of four or five people was both cheaper and faster than the scheduled service. Mr. Laserich suggested that the existing airport facilities at Pelly Bay could handle larger and faster aircraft than the DC-3 and that such aircraft could be used to offer cheaper and faster service to Yellowknife than provided by NWT Air.

Mr. Ningark and Mr. Kakkianiun advised Ms. Burnham, Commission counsel, that most air travel from Pelly Bay is for business reasons. Although residents of the hamlet have close ties with other communities in the region, including Spence Bay, Gjoa Haven, Cambridge Bay and Coppermine, most cannot afford to fly to visit their friends and relatives.

Mr. Kakkianiun confirmed to Commissioner Bourret that he believed competition between airlines would result in lower rates and was possible even though Pelly Bay has a population of

only 290 people. Any airline would handle both passengers and freight and would serve several communities in the Kitikmeot region. Mr. Kakkianiun confirmed to the Chairman that his hamlet experiences the same difficulties with telephone service as other communities in the area.

David Tucktoo, Chairman, Hunters and Trappers Association

Mr. Tucktoo repeated concerns about high air fares and slow, old aircraft, but stated that flights do arrive on the planned days and handle all of the goods they are supposed to. He wished to see faster aircraft introduced, including ones smaller than the DC-3 to serve smaller communities and those with inadequate runways.

Peter Akkinginguarq, Chairman, Regional Education Authority, Gjoa Haven Health Committee

Mr. Akkinginguarq expressed concern about the problem created when freight rates for materials used by the Education Authority increase after budgets for the fiscal year have been set. He also described the difficulty encountered by elders and patients unable to speak English on visits to Yellowknife, particularly when interpreters working at the hospitals are not available or are not aware that the patients have arrived.

Kelvin Ng, Executive Officer, Kitikmeot Regional Council

In Mr. Ng's opinion, much of the criticism of NWT Air stems from the fact that the airline has not fulfilled promises made when it was lobbying for its license. Mr. Ng made the following suggestions for improving the quality of service offered by any carrier serving the region:

1. Deregulation should be introduced on the same basis as in southern Canada. This will encourge competition and result in improved service and more realistic prices.

2. Airline tolls and tariffs should be directly related to airline operating costs. Airlines should have to justify fares before implementing them.

3. Similar promotional policies and practices should be introduced in the north as in the south.

4. Standby and special fares should be introduced for senior citizens, families, youths and non-profit organizations.

5. Seats offered through seat sales and other excursion fares should be applicable only to non-business travellers.

6. Discounts should be established for large volume shippers and for non-priority shipments.

7. Northern air carriers should commit a percentage of their profits to upgrading existing services to benefit both themselves and the industry as a whole.

8. A new regulating and monitoring board should be established under the CTC to deal exclusively with remote northern air carriers. At least half of the members of this board should be northerners who understand the unique conditions occurring in the north.

Mr. Ng also suggested that discontinuance of the Arctic Air Facilities Policy of Transport Canada in March 1983 has resulted in a shifting of federal funds from the low traffic airports in the Arctic to larger airports in the south.

Under cross-examination by Ms. Burnham for the Commission, Mr. Ng suggested that the regulating and monitoring body which he had proposed should be responsible for overseeing all activities of the Arctic carriers such as the fares charged and the facilities used. He felt that competition itself would not guarantee reasonable fares, at least initially.

In reply to Commissioner Chapman, Mr. Ng indicated that he did not have direct evidence to substantiate a statement in his brief that present airline service in the region is unsafe and that he was not fully informed on the moves toward deregulation in southern Canada.

Robert P. Engle, President, Northwest Territorial Airways

Mr. Engle summarized the history of NWT Air. The airline has provided commercial air service to the Arctic coast for the past 16 years. For the last four years, Gjoa Haven, Spence Bay and Pelly Bay have been served by flights from Cambridge Bay, most of which are continuations of flights from Yellowknife. This through service was set up in recognition of the fact that the DC-3 is a slow aircraft; it ensures that

passengers do not have to change aircraft or stay overnight in Cambridge Bay. Mr. Engle also described the other services provided by NWT Air in the Arctic and other parts of Canada. The emphasis in scheduling has been on hub and spoke operations as its main base in Yellowknife and its station in Winnipeg. However, services in the central Arctic are linear, linking several communities on one flight rather than non-stop from each community to Yellowknife. If this were not done, either frequencies would be inadequate to serve the needs of the communities or the aircraft would be too small to handle many of the cargo demands. Since cargo accounts for over 70% of the payload between Cambridge Bay and the smaller communities, it determines the frequencies that can be operated.

In further testimony, Mr. Engle made the following points:

1. NWT Air would have to reduce frequencies to all of the communities if, for example, it were faced with competition between Cambridge Bay and Gjoa Haven.

2. The runways at all of the communities served by NWT Air except Spence Bay are capable of handling large turbo-prop aircraft. Spence Bay's runway should be lengthened from its present 3 800 feet to 5 000 feet.

3. NWT Air intends to fulfill its long-standing commitment to improve services in the central Arctic as airport facilities are improved. Provided the runway at Spence Bay is lengthened, NWT plans to extend its Lockheed Electra turbo-prop service in 1985 to include Spence Bay, Gjoa Haven, Pelly Bay and Hall Beach. It already operates such aircraft between Yellowknife and both Cambridge Bay and Coppermine.

4. Other parts of the infrastructure within which NWT Air operates also need improvement, in particular weather reporting and forecasting and communications.

5. Changes to the airline's route system can have a very beneficial effect on journey times and fares by reducing the mileage flown in certain circumstances. For example, a new service to Hall Beach to the east of Spence Bay will allow passengers to travel to Montréal in about seven hours instead of two days and will reduce the excursion round-trip fare from $1 603 to $933.

6. NWT Air offers a large number of reduced fares including special fares for families, senior

citizens, children, youths and groups. The fares are available throughout the airline's entire system with a minimum of 25% of seats being allocated to B Class (excursion) fares on each flight. Unfortunately, the airline has great difficulty in making its passengers aware of these fares, largely because of the lack of sophisticated communication systems.

7. On a system-wide basis, fuel represents close to 25% of total operating costs. At Cambridge Bay where fuel costs $1.09 a litre, the percentage rises to over 50%. Fuel costs in the central Arctic have increased more rapidly than fares.

8. NWT Air is making considerable efforts to improve communications with the local communities, for example by asking representatives of the Kitikmeot Regional Council and Kitikmeot Inuit Association to meet with scheduling staff prior to preparation of this summer's schedule. Some articles in the airline's In-Flight magazine are now being translated into Inuktituk.

9. In the first three months of this year, NWT Air completed over 99% of all flights scheduled for the Arctic coast.

In conclusion, Mr. Engle pointed out that the linear nature of the routes flown, the low population densities and the fact that almost all freight travels in only one direction, creates a high cost environment.

In response to a question from James Iglook, who pointed out that NWT Air's excursion fare discount in the north was 35% versus 50% in the south, Mr. Engle indicated that the discounts were set on the basis of the need to manage unused seats. Few such seats are available in the north because the airline normally leaves Cambridge Bay fully loaded with a combination of freight and passengers.

In response to cross-examination by Mr. Laserich of Cambridge Bay, Mr. Engle agreed that passengers flying from Yellowknife to Rankin Inlet paid more than passengers on the same flight who continued to Winnipeg but emphasized that the fare between Yellowknife and Winnipeg was based on non-stop service.

COPPERMINE, NORTHWEST TERRITORIES, THURSDAY JUNE 21

Joe Ohokannoak, Mayor, Hamlet Council, Cambridge Bay

Mr. Ohokannoak outlined concerns of his community relating to air transportation in the Kitikmeot region:

1. Service between Cambridge Bay, Coppermine and Holman is inadequate with only one flight a week in each direction between the first two communities.

2. Passenger and freight costs are high.

3. The DC-3 has frequent mechanical problems which lead to delays and interruptions to the published schedules. These would be reduced if NWT Air built a hangar in which the aircraft could be kept when overnighting.

4. There is no competition within the Kitikmeot region.

5. Pacific Western (PWA) serves Cambridge Bay from Yellowknife via Resolute Bay, a routing which on NWT Air takes four and a half to five hours instead of the hour and 15 minutes on a PWA non-stop flight.

Mr. Ohokannoak concluded his remarks by recommending that the Air Transport Committee consider applications from other carriers to operate within the Kitikmeot region in order to bring more competition and ultimately better and more efficient service.

During cross-examination by Ms. Burnham, counsel for the Commission, Mr. Ohokannoak suggested that most private individuals cannot afford the high cost of air travel. He was aware of some excursion fares, but not of any other discount fares. He advised Commissioner Bourret that Cambridge Bay has a population of about 900 and Holman about 325. He advised the Chairman that many older members of the community are not aware of discount fares, connections, etc. A possible solution would be to print the schedules in the proper dialects for each community. Pelly Bay, Spence Bay and Gjoa Haven have a different dialect from that used in Cambridge Bay, Coppermine and Holman. Under further questioning from Chairman Orange, Mr. Ohokannoak stated that Cambridge Bay's telephone system is better than those of the communities to the east and that the bulk of freight arrives by barge.

Robert Kuptana, Councillor, Hamlet of Holman Island

Mr. Kuptana advised the Commission that his hamlet wished to see increased competition between Yellowknife, Coppermine and Holman Island and recommended Kenn Borek Air. One reason for this was poor service from NWT Air, with Mr. Kuptana quoting an instance when a flight had departed early resulting in his missing it.

Mr. Kuptana agreed with a suggestion from the Chairman that it would be a good idea to involve the regional council in surveillance of services offered in the area.

Dan Harvey, Councillor, Hamlet of Coppermine

Mr. Harvey presented a brief on behalf of the hamlet council in which the following points were made:

1. Air fares and freight rates are high. Fares between Coppermine and Yellowknife have increased 30 to 35% between May 1981 and June 1984, while those in the Kitikmeot east area have increased between 45 and 55% since April 1981. If the federal government can subsidize Air Canada to fly coast to coast, the people of the north should also be subsidized, particularly since the area has a low economic base and air is the only transportation mode.

2. Most people not employed by government cannot afford air travel. The result is that close family ties are being broken, particularly when children go to school in Yellowknife.

3. When NWT Air had competition from Northward Airlines, many special fares were offered. Since NWT Air has had a monopoly, some of these special fares have been dropped. In any event, many people in the local communities cannot take advantage of some of the special fares because they do not plan trips well in advance.

4. A second airline should be licensed to serve the Kitikmeot region since competition would result in cheaper rates and more modern aircraft. The community supports Adlair Aviation in its application for a permanent license to replace the temporary one it has had for the past six months. The community also supports Kenn Borek Air in its

application to extend its license to allow it to operate flights between Coppermine and Yellowknife.

During cross-examination, Ms. Burnham, counsel for the Commission, suggested that Air Canada is not subsidized. Mr. Harvey indicated that this did not change the need for subsidies for people living in the north. Subsidies should cover both passenger fares and freight rates. During further cross-examination, Mr. Harvey responded as follows:

1. NWT Air should replace its DC-3's with new aircraft such as the Dash 8's, particularly in view of the extremely high air fares.

2. The pre-booking requirements associated with excursion fares present problems, particularly as passengers are often unaware of them. The requirement that the minimum stay must include a Saturday night also presents a problem because of the high cost of hotels in places like Yellowknife.

3. Nine out of ten students do not complete high school because they cannot adapt to the change in lifestyle when they start school in Yellowknife. If their parents could afford to fly them home more frequently, adjustment would be easier for them.

In response to Commissioner Bourret, Mr. Harvey agreed that English-speaking members of the community had a responsibility to communicate information on special air fares to those members who do not speak English. But Mr. Harvey suggested that NWT Air also could do more, particularly by translating parts of its schedule into the two local dialects. In response to Chairman Orange, Mr. Harvey pointed out that some personal travel was created by medical emergencies which prevented passengers from taking advantage of excursion fares because they cannot meet the pre-booking and minimum stay requirements.

Nellie Kanovak, Private Citizen

Mrs. Kanovak confirmed the importance of air travel as a means of visiting friends and relatives but indicated that the high cost greatly restricted the amount of such travel.

Agnes Allen, Secretary-Manager, Coppermine Housing Corporation

Mrs. Allen repeated concerns about the high fares charged by NWT Air and about the limited service offered. The Coppermine Housing Corporation finds it cheaper and more

convenient to charter aircraft for conferences and workshops from Adlair Aviation. Mrs. Allen suggested to Ms. Burnham, counsel for the Commission, that more people would fly if they were able to pay for their tickets over a period of weeks or months.

Edward Havioyak and Alice Hitkoak, Private Citizens

Ms. Hitkoak expressed great concern about the reliability of the DC-3's and her conviction that a serious accident was bound to happen. Mr. Havioyak pointed out that the only way most people could visit friends and relatives in other communities was when they were travelling on business with the air fare paid for by an organization such as the government.

Robert P. Engle, President, Northwest Territorial Airways

Mr. Engle started by reviewing the history of NWT Air's services to Coppermine, Holman Island and Cambridge Bay. He suggested that the area was receiving some of the best air service in northern Canada, citing as an example a recently-completed truck/air lift by Hercules aircraft for the Hudson's Bay Company. He cited as a second example, the fact that passengers could leave Coppermine in the mid-morning and reach any point in southern Canada the same day.

In further testimony, Mr. Engle made the following points:

1. Since NWT Air took over services when Northward Airlines went bankrupt in 1980, regular fares between Yellowknife and both Cambridge Bay and Coppermine have increased by an average of 12% per year. But NWT Air has introduced an excursion fare for both pairs that is only 5% higher than the regular fare in 1980. Youth and senior citizen fares are also offered at a rate only 20% higher than the regular fare in 1980. Similar examples were given for other pairs.

2. In contrast, since 1980 fuel at Cambridge Bay has increased by 125% from $0.48 a litre to $1.09 while the maximum tax on a passenger ticket has increased by 180% from $8 to $23.

3. Excursion fares were not available when Northward Airlines was operating, nor could they have been because the necessary computer and telecommunication facilities were not in place.

4. NWT Air has a fully integrated interline system which allows passengers to book space at full and discount fares on NWT Air and on connecting carriers. Mr. Engle suggested that one problem with deregulation in the United States is that interline arrangements are becoming fewer, not increasing.

5. In view of the importance of catching a flight from a community served only two or three times a week, NWT Air frequently holds aircraft for connecting or late passengers. Along with other airlines, it also ensures that passengers travelling on discount fares who have missed connections through no fault of their own are not penalized.

Mr. Engle then gave his opinions on various aspects of deregulation. NWT Air is in favour of deregulation if what is meant is the encouragement of responsible competition along with streamlining of the regulatory process. It is opposed if what is meant is unlimited open entry and exit to routes. Any changes in the regulatory system affecting northern services should acknowledge obvious differences between markets in northern and southern Canada. For the most part, markets in the north consist of low-density routes with little, if any, alternative means of transportation.

With regard to the regulation of air fares, Mr. Engle suggested that in the north account must be taken of the fact that costs vary substantially from point to point. Airlines should have the opportunity to apply fare decreases selectively in the same way that they have been able to vary the allocation of seats to a discount fare. He was concerned that the 'first Saturday' fence on excursion fares may not be compatible with the northern lifestyle.

Mr. Engle advised the hearing that, as part of his airline's efforts to improve communications, its fare structures would be published shortly in both dialects within the Kitikmeot region.

During cross-examintion, Mr. Harvey, councillor for the hamlet of Coppermine, suggested that a recently-announced summer seat sale offering 50% reductions on all of NWT Air's north/south flights to the Northwest Territories should be made available for travel between the northern communities. Mr. Engle responded by suggesting that the first objective is to ensure direct knowledge and use of the existing discount fares available on all flights.

In response to Mrs. Kanovak of the hamlet of Coppermine, Mr. Engle stated that his airline was keen to have multilingual cabin attendants on its flights.

Mr. Engle advised Ms. Burnham, counsel for the Commission, that NWT Air's passenger fares and freight rates are based on historical fares in effect over a period of years with increases being based on cost increases. The airline does not have a fare formula. Fares are also based on the costs of the aircraft used on a route. Fares for the new Hall Beach route were set by combining the existing fares along the route east of Cambridge Bay to Pelly Bay with the fare structure used by First Air between Pelly Bay and Hall Beach.

Ms. Burnham explored with Mr. Engle the fares for various routes and drew attention to the fact that a passenger travelling from Hall Beach to Yellowknife on a flight with a stop in Pelly Bay in effect pays less for the Cambridge Bay-Yellowknife leg than a passenger originating at Pelly Bay on the same flight. Mr. Engle explained this with reference to the lower costs of fuel in Hall Beach than in Cambridge Bay. Mr. Engle also explained lower fares per passenger-kilometre on routes originating in Yellowknife than on routes entirely within the northern area by reference to lower fuel costs in Yellowknife and to the use of Electra aircraft on some flights originating in Yellowknife, this aircraft having much lower seat-mile costs than the DC-3. He agreed with Ms. Burnham that competition from PWA was a factor in the fares charged between Yellowknife and Cambridge Bay but pointed out that NWT Air's fares are higher than PWA's. He explained much lower fares per passenger-kilometre on southerly routes out of Yellowknife operated by DC-3's than those between communities on the Arctic coast, partly by reference to lower fuel costs and partly by reference to lower costs for other facets of the airline's operations, such as agency costs.

In discussing fares between Yellowknife, Rankin Inlet and Winnipeg, Mr. Engle explained that the Yellowknife-Rankin fare is based on the Yellowknife-Rankin-Frobisher Bay fare structure and not on the Yellowknife-Winnipeg or Winnipeg-Rankin fare.

After further discussion, for example of apparent anomalies in the fares between Yellowknife, Rankin Inlet and Winnipeg, Mr. Engle stated that the airline does not intentionally cross-subsidize one route from another. He did not know whether cargo revenues cross-subsidize passenger travel.

Revenue from unit toll services has increased dramatically from less than 5% of system revenues in 1979 to more than 70% in 1983.

FORT SMITH, NORTHWEST TERRITORIES, MONDAY JUNE 25

John Vogt, Mayor, Town of Fort Smith,
assisted by John Price, Public Works Manager

Mr. Vogt started his presentation by suggesting that the federal government and the Air Transport Committee should not treat his community in the same way as those "south of sixty." Fort Smith is remote and its people rely on air transport for the majority of their extensive travel. Mr. Vogt then expressed several concerns and wishes of the community:

1. Fares and tariffs in the north should be reviewed and put on an equitable basis with those in the rest of Canada.

2. Although PWA offers discount fares, few seats seem available to the smaller communities. Perhaps PWA should allocate the seats assigned to discount fares to communities on the basis of population.

3. The level of safety and comfort should be increased and then maintained by regular government inspection.

4. The airlines should not be allowed to 'bump' essential freight, such as mail.

5. Competition should be allowed only if it will not result in a deterioration of scheduled service.

6. Any boards of the Air Transport Committee travelling in the north should include a resident of the Northwest Territories.

Mr. Vogt concluded by stating that the level of service to Fort Smith is good.

In response to questions from P. Wallis, Vice-President, Law and Government Relations of PWA, Mr. Vogt was unable to point to any area of specific concern with regard to the level of safety and comfort attained by PWA. He was also not aware that PWA had responded to a letter which he had sent on the issue of the availability of discount fares. He agreed with Mr. Wallis that the current one-way regular economy fares between Edmonton and Fort Smith and between Edmonton and Vancouver are almost identical on a per mile basis and that the distances flown are also almost identical.

In response to Ms. Burnham, Commission counsel, and the commissioners, Mr. Vogt observed the following:

1. In comparison with other parts of Canada, the concern about fares in the north is with discount fares rather than with regular economy fares.

2. The community would prefer continuation of once-daily jet service to more frequent flights in smaller non-jet aircraft.

3. The Town Council does not support deregulation at this time because of the possibility that service could deteriorate.

4. The community receives good service from charter operators and from a local travel agency. Bumping of passengers from scheduled flights almost never happens.

John Manton, President, Fort Smith Chamber of Commerce

Mr. Manton emphasized the importance of air travel by pointing out that the only road link to the south from Fort Smith is via Hay River, 175 miles to the northwest. It takes 18 hours to drive to Edmonton, the main supply centre for Fort Smith. The town has a population which ranges from 2 500 to 3 000, the variation being caused by students attending a local college. The college is a mainstay of the community, which otherwise has an economy based on small businesses.

The community receives excellent service for both passengers and freight from PWA, although it pays a full price for it. The only area where service could be improved would be the introduction of extra flights at particular peak times in the year. The business community believes that deregulation would result in a reduced level of service with non-stop jet service to Edmonton being replaced by non-jet flights in smaller aircraft to Yellowknife or Fort McMurray for onward connection there. In the long run, this would cost the business community more than the existing service and could damage the whole community by making Fort Smith a less attractive centre for government departments.

Mr. Manton made the following points in response to cross-examination by Ms. Burnham:

1. Freight which is not required on a priority basis reaches the community by road.

2. The community would like to have more seats available at discount fares to supplement the excellent full-fare service offered by PWA.

3. Although aircraft such as DC-3's can be chartered at peak times, this is less convenient than having increased scheduled service.

Elaine Parker, Operations Manager, North Cariboo Flying Service Ltd.

Ms. Parker started by commenting that her company's growth over the past 27 years had been hampered by CTC regulations which had lost their original intent and purpose. In discussing the moves towards deregulation in Canada, she observed that the present separation between deregulated and liberalized zones is hard to understand. It does not appear to follow population density, economic ties within community groups, industrial or resource wealth patterns, or geographical or geological patterns. She suggested that the borderline between the zones should either be reconsidered or be eliminated, with elimination being in her view the better solution. If the purpose of the line is to protect northern areas, this can be accomplished through present legislation on northern content. If the purpose is to protect the less mature air industry of the north, the assumption of lack of maturity should be challenged; airlines such as North Cariboo and NWT Air have operated successfully in the north for more than 20 years.

North Cariboo feels that the present regulatory system is hampering the growth of the industry and preventing the aviation companies from providing transportation to serve the public convenience and from reacting to public necessity. Ms. Parker quoted several examples of the problems her company encounters:

1. Positioning charges make it very difficult for carriers such as North Cariboo to compete away from their own bases. One consequence is that many potential customers are forced into setting up their own aviation departments; in turn, this results in a loss of business for the commercial carriers.

2. North Cariboo's ability to offer charter service in its Group E aircraft is hindered by the requirement that permission must be obtained for every trip that parallels the scheduled service of a major carrier. The time delay in the approval process creates uncertainty and forces many customers to seek alternatives, including purchase of their own aircraft.

3. North Cariboo's ability to offer charter service is also hindered by the fact that its license to use

Group E aircraft restricts it to the use of propellor driven aircraft. Customers wishing jets are forced to go elsewhere, for example to the purchase of their own aircraft with a consequent loss of business for commercial carriers.

4. The extensive paperwork requirements for many charters, in particular inclusive tour ones, are often difficult to comply with and unnecessary.

Ms. Parker concluded by stating that her company feels that it is time to allow healthy competition throughout the entire airline industry. In particular, she suggested that many of the restrictive regulations need to be overhauled, including those on base and route protection, on entity, inclusive tour and common purpose charters, and on aircraft type and size.

Under cross-examination, Ms. Parker denied a suggestion by Mr. Wallis that PWA had "granted (North Cariboo) the opportunity to operate charters between Edmonton and areas in central British Columbia". She responded to Ms. Burnham, Commission counsel, by making several points:

1. Competition would be good for both northern and remote communities.

2. Positioning charges should be waived for contract work if not eliminated altogether.

3. Route protection conditions should be eliminated.

4. Aircraft size restrictions should also be eliminated. An air carrier should simply have to demonstrate the technical and financial ability to operate the aircraft.

5. CTC approval for charters quite frequently does not arrive in time. On occasion, the airline is forced to risk its license by allowing air charters to depart before approval is received.

6. Both entry to and exit from routes should be restricted with at least a month's notice required for exit.

<u>Norm Zigarlick, General Manager, Sunrider Transportation Ltd.</u>

Mr. Zigarlick described his company's activities. Sunrider is a new company. It focusses on arranging transportation for tourist traffic to and from vacation areas in western and northwestern Canada that have solid potential but as

yet do not have a reliable and/or convenient transportation system. Mr. Zigarlick then discussed factors which currently limit the development of tourism in the Northwest Territories:

1. There is only one scheduled carrier whose schedules are not always convenient. Although discount fares are advertised, they seem very difficult to obtain.

2. Government regulations do not allow aircraft to be chartered on short notice, even to a group of people wishing to visit an area not serviced by any other carrier.

3. If a charter can be arranged, it involves antique aircraft at unreasonably high cost.

Mr. Zigarlick suggested that the monopoly situations existing in the north in a regulated environment have resulted in much higher prices than necessary, particularly when account is taken of the fact that most charter operators use a zero fuel tariff, that is, one in which the customer pays directly for all the fuel used. Deregulation in the south with continued regulation in the north is likely to result in even greater price disparities as competition lowers prices in the south.

Mr. Zigarlick acknowledged that his company recognizes the need for some controls in the north to protect services to certain areas and to protect the major investments made by the established carriers. But current regulations damage the tourist industry and the medium size charter operators, in part by preventing them from serving the spontaneous market. He presented the following suggestions for consideration by the Air Transport Committee:

1. Rules governing Advance Booking Charters (ABC's) and Inclusive Tour Charters (ITC's) should be slackened considerably, particularly in the area of the advance time required.

2. The requirements for a tour operator selling ABC or ITC arrangements should be limited to bonding and financial stability.

3. In areas that do not enjoy service by scheduled carriers where route paralleling is not a problem, ABC or ITC charters should be allowed with little or no advance booking time required.

4. Air carriers and those using air carriers should be allowed to use some innovation and ingenuity in developing new markets. It does not make sense that, even after obtaining a federal license to

operate an air carrier, that same carrier must request permission for virtually every trip.

5. Tour operators should have to meet a defined set of standards in order to sell ABC or ITC packages. Once an operator meets those standards, he should be allowed to sell without further interference.

6. When special treatment is proposed for northern carriers, account should be taken of the fact that these carriers already enjoy a built-in protection due to the policy of the Government of the Northwest Territories to buy northern.

During cross-examination by Ms. Burnham for the Commission, Mr. Zigarlick stated that his presentation was based entirely on tourism. He did not wish to comment in detail about the protection necessary for remote communities such as Pelly Bay. He suggested that the existing fence on ABC's which forces a stay over the first Saturday night did not necessarily suit the itineraries of the tourists which his company is trying to attract.

Dorothy Engst, Tundra Helicopters Ltd.

Ms. Engst gave the perspective of a helicopter operator. She suggested that helicopter companies would suffer more under deregulation than those operating fixed-wing aircraft. She pointed out that the policy of northern preference applies only to work done for the Government of the Northwest Territories whereas most helicopter work is contracted by the private sector. In addition, since positioning charges are not assessed, companies based further south can underbid on contracts covering limited periods of time.

Kenneth Gray, Vice-President, Central Region, Pacific Western Airlines (PWA)

Mr. Gray discussed a document filed by PWA on the utilization of excursion fares from Yellowknife, Hay River and Fort Smith to Edmonton and return. In August 1983, 16% of the airline's capacity was allocated to B Class excursion fares, of which 90% was used. In October 1983, 16% of capacity was again assigned but only 65% of that used. Finally, in March 1984, PWA increased the allocation to 22%, of which 80% was used. As a general rule, PWA allocates these seats to passengers flying between Hay River or Fort Smith and Edmonton, assigning excursion fare passengers between Yellowknife and Edmonton to other services.

FORT SIMPSON, NORTHWEST TERRITORIES, TUESDAY JUNE 26

Ms. Burnham, counsel for the Commission, started the day's proceedings by reading into the record written submissions received from some communities in the Mackenzie:

1. The Tutsel K'e Dene Council, for the community of Snow Drift, expressed great concern about the poor quality of its existing airstrip and about the discontinuance of the Arctic Air Facilities Policy under which a proper airport would have been built.

2. The Rae Lakes Dene Council expressed very similar concerns, pointing out that their airstrips could only be used when there is both good weather and daylight.

3. The Lac la Martre Settlement Council and the Lac la Martre Band Council were also worried that the Arctic Air Facilities Policy has not been renewed. They had hoped to be able to build a new airport to replace the existing one which is very close to Lac la Martre, a community which is growing quickly.

4. The Community of Jean Marie River described its existing airstrips as unsafe and as unusable for a month in both the fall and spring. It needs to be moved away from the community, but no funds are available for this.

5. The Trout Lake Community is totally isolated with the winter road not going in each year. The airstrip has an uneven surface, is unusable during the spring and is a hazard to the community since it is located right beside some houses and the school. The community is very concerned about the situation, particularly as it does not meet the criteria for inclusion in the Arctic Air Facilities Policy.

6. The Community of Nahanni Butte pointed out that its airstrips cannot be used for up to six weeks in the spring and does not face the prevailing winds. The community needs a safe facility to provide more reliable air service.

<u>Patrick Scott, Executive Director, Deh Cho Regional Council</u>

The Deh Cho Regional Council is a political body formed under the Regional and Tribal Council Ordinance of the Northwest

Territories; membership includes representatives of all major political bodies in Rigley, Fort Liard, Kakisa, Hay River Reserve and Fort Simpson. On behalf of the Council, Mr. Scott raised a number of concerns of a regional nature:

1. The airstrips serving the small communities of Jean Marie, Nahanni Butte and Trout Lake are substandard. Neither Transport Canada nor the Territorial government has seen fit to provide resources to make the airstrips safe and usable year-round. One result is that the potential of the communities to develop a meaningful economic base is limited.

2. Little or no effort has been made by either the scheduled or charter airlines to train and hire Dene people. Neither PWA nor NWT Air have Dene staff. Any airline awarded a license to operate in the area should be forced to develop northern benefit packages similar to those developed by the resource companies.

3. If deregulation can reduce the very high fares paid in the north for scheduled service, then it would certainly be supported. It would also be supported if it would result in more reliable service.

In reply to cross-examination by Ms. Burnham, Mr. Scott suggested that the area could support additional scheduled service as a substitute for some of the extensive chartering which takes place.

Commissioner Bourret wondered what the consequences would be if the CTC were to impose a northern benefit package as a condition in the award of an operating license and the airline subsequently did not fulfill its obligations. He pointed out that an airline could hire and train someone as part of such a package only to have the individual resign without sufficient notice to allow a replacement to be hired and trained. Mr. Scott agreed that it was not easy to implement northern benefit programs but reiterated their importance, whether developed through the CTC or by other means.

Urs Schildknecht, President, Liard Air Ltd.

Liard Air is a small charter company based in Fort Liard, 130 miles to the southwest of Fort Simpson.
Mr. Schildknecht commented on the length of time taken by the Air Transport Committee to process license applications and suggested that it does not seem to be aware of special problems faced by northern carriers. The carriers need more flexibility in areas

such as the size of aircraft used in order to respond to markets which can change rapidly as a result of mining, gas and oil developments.

Mr. Schildknecht then made the following suggestions:

1. The positioning charge regulations should be clarified. Even ATC staff provide conflicting interpretations.

2. Carriers should be able to charter out individual seats not just the whole aircraft.

3. The 30-day requirement for filing tariffs should be dropped, especially when a new license is granted or when a carrier wishes to use a new type of aircraft.

4. Single-engine aircraft should be allowed to operate at night provided they carry goods only.

Mr. Schildknecht concluded by stating that the north does not have sufficient population to support the competition that would result from full deregulation. The area would be better served by a loosening of existing regulations to give carriers a freer hand to serve the markets.

He advised Ms. Burnham, Commission counsel, that he thought that it would be helpful if the Air Transport Committee visited each carrier in the north once a year; this would give the Committee a better appreciation of the special problems and issues affecting the north. He believed that the positioning charge regulations should be loosened so that the charges only apply to an aircraft based within a 50-mile radius of a licensed carrier's base. He also suggested that it would be helpful to combine weight groups A, B and C into one group.

In response to Commissioner Chapman, Mr. Schildknecht commented that he considered the proposal for northern benefits packages presented earlier in the day to be unrealistic. He would like to hire local people but at present few have the required education.

WATSON LAKE, YUKON, WEDNESDAY JUNE 27

<u>Garry Periard, Recreation and Business Manager, The Club</u>

Mr. Periard first presented a submission by Cecile Pratt and Isabel Crossley, private citizens of Cassiar, British Columbia. They pointed out that the Watson Lake airport serves

the mining towns of Cassiar, B.C. and Tungsten, Northwest Territories as well as communities up and down the Alaska Highway, and made the following comments on the poor quality of service offered at the Watson Lake airport:

1. The airport itself offers minimal traveller comforts.

2. CP Air's service from the south has decreased from a daily flight to very infrequent flights at a higher cost than ever before, with flights often being diverted to Whitehorse. The reduced service has affected deliveries of newspapers and mail. Communications are so poor that CP Air's personnel do not know whether flights are on time until they leave Fort St. John.

3. CP Air has dropped its service between Watson Lake and Whitehorse to be replaced by a much more expensive service by Trans North Turbo Air.

4. During March 1984, up to two weeks were required to obtain a confirmed booking on CP Air's service to Watson Lake. Presumably, this will mean that in March 1985 no charter class seats will be available since these are calculated on the basis of empty seats the previous year.

5. The federal government should make the advantages of deregulation available on northern routes as well as in the south.

6. It is aggravating that a resident of Cassair, B.C. has to overnight in Vancouver en route to any other place in B.C. It is also aggravating to have to pay more to reach Fernie, British Columbia than Hawaii.

7. Greater use should be made to the airport at Dease Lake, on which a considerable amount of money has been spent to upgrade the facilities.

Under cross-examination by Ms. Burnham, Commission counsel, Mr. Periard indicated that he thought flights had been diverted to Whitehorse on a couple of occasions in the winter months. The flights then continued to Watson Lake, the result being a delay of a couple of hours to the passengers travelling to Watson Lake. He believed that in their submission, the two ladies were referring to the lack of availability of various bonus fares in their reference to the advantages of deregulation.

Mr. Periard then presented a brief on behalf of The Club, a recreation club in Cassair, 100 miles from Watson Lake.

Travel plays a major role in the community, primarily in support of friendly sports competitions among northern towns. The high costs of air travel have forced his club to revert to road transportation, which in winter is time-consuming, tedious and sometimes dangerous. When CP Air operated between Watson Lake and Whitehorse two years ago, it offered a special fare of $74.00 return for sports and charters. Trans North Turbo Air now charges $244.00, essentially preventing the club from using the service.

Mr. Periard expressed similar concern to those of Ms. Pratt and Ms. Crossley on the quality of airport facilities and air service offered, with particular emphasis on the problems created by schedule changes, the poor quality of food served in flight, and the very restricted food and beverage services at the airports in Fort St. John and Watson Lake. Mr. Periard recommended that the following be available in the north:

a) a fair share of all special services and rates offered by the airlines;

b) airports that offer better facilities, especially in the winter;

c) free enterprise in the airline industry;

d) better communication between passengers and airlines;

e) better in-flight service; and

f) the setting up of a northern volunteer board to provide input to the Commission.

In response to Ms. Burnham, Mr. Periard stated that competition would result in lower air fares and increased travel. He also confirmed that he was concerned both about the high cost of air travel and with the low frequencies offered, particularly in the winter.

Bryan Lundale, Locals 6536 and 8449, United Steelworkers of America

Mr. Lundale's unions represent the employees of Brinco Mining, Cassiar Division. Including family members, approximately 900 people of the 1 400 living in Cassiar are represented. Lack of air service is a major concern since most union members take frequent vacation periods out of the north. The consistently poor air service at Watson Lake often spoils vacations and makes it difficult to travel quickly to respond to family illness or death in other communities. Although the

Cassiar area generates about $20 million in individual and corporate taxes, the community sees nothing being provided in return.

Mr. Lundale presented several criticisms and recommendations for the Commission's review:

1. CP Air's schedule to Watson Lake is extremely poor with three flights a week in the winter and five in summer. Winter is the time when most people enjoy southern vacations and yet this is when fewer flights are offered. A feeder service using Dash 7's instead of B737's could provide service on a daily basis and turn a non-profitable schedule into a very profitable one.

2. The existing flights arrive too late in Vancouver or Edmonton to allow same-day connections to the east, south or international destinations. Mr. Lundale provided an exhibit showing schedules to overcome this difficulty, with Whitehorse used as a connecting point.

3. Passengers in the north pay a higher tariff per air mile than those in the south. The tariff should be equalized throughout Canada. Freight rates should also be equalized but with discounts for high volume users.

4. Discount fares and special offers should be mandatory on all routes.

5. Safety of airline passengers should remain of utmost concern. Although airlines in Canada have an excellent safety record, improvements can be made by grooving all hard-surfaced runways and requiring laser holography of all recapped airline tires.

6. Security checks should be made more realistic by allowing passengers in the north to carry with them items such as Buck knives, which are as common as ties in the south.

7. Any carrier handling mail for Canada Post should be required to provide service on at least six days a week.

8. Airport facilities in the north should be upgraded, including those to handle luggage and freight.

9. All subsidies to Air Canada should cease and be used instead to upgrade facilities and service in

the north. Alternatively, Air Canada should be forced to provide much of the service in the north, even if it would do so at a loss.

Mr. Lundale suggested that many of the improvements required would come about without government subsidy if competition is encouraged.

Mr. Lundale agreed with Mr. G. Heinmiller, counsel for CP Air, that the feeder service he had proposed would require purchase of an aircraft dedicated to that service.

In response to Ms. Burnham, counsel for the Commission, Mr. Lundale stated that he saw no inconsistency in proposing both equalization of fares throughout Canada and deregulation. In his judgement, deregulation in the United States had had the effect of equalizing fares there. He felt that the best ways of providing subsidies, if these were necessary to maintain service to a northern community, would be through a subsidy on the price of fuel or perhaps the underwriting of part of a carrier's losses.

Adolf Penno, Office Manager, Brinco Mining Ltd.

Mr. Penno presented a brief put together jointly by School District Number 87, Stikine and his company. He described Cassiar as having changed over the years from being purely a company town to one which is evolving as a centre for the Stikine region. However, it is still an isolated town and must therefore have facilities and services at least equal to those of communities with more favourable locations and climates if it is to attract people to stay. One factor contributing to its isolation is a lack of proper airport facilities.

Mr. Penno went on to outline concerns about the commercial air service into and out of Watson Lake:

1. A significant demand for service exists, with the Cassiar area generating or receiving about 20 000 passenger trips, 80 000 kilograms of mail and 70 000 kilograms of freight a year.

2. Economy air fares are excessive. Between 1978 and 1984, the full economy fare for a Watson Lake - Vancouver Island trip had increased by 107.5%, from $228.00 to $473.00. No special service such as Empress Class is offered for this price.

3. Although charter class fares are offered, seats at these fares are difficult to obtain. If more were made available, air travel would be stimulated.

4. Special seat sales do not extend beyond Fort St. John. It would be more equitable if such promotions were system-wide.

5. Rerouting takes place without prior warning. Inadequate meal service on such reroutings adds to the irritation caused by a much longer than expected journey time.

6. Luggage is frequently lost.

7. More frequent flights are required. The current schedule, particularly in the winter, forces passengers to overnight in Vancouver or Edmonton, adding greatly to the costs of travel. The schedule also means a long turnaround for mail, air freight and newspapers.

8. Freight costs are mounting rapidly. They have increased from $1.46 per kilogram in 1982 to $2.43 in 1984, an increase of 37% in two years.

Mr. Penno had several further suggestions:

a) introduction of discounts for frequent flyers;

b) introduction of no frills flights with a consequent fare reduction;

c) introduction of a feeder service between Watson Lake and Whitehorse on days when Watson Lake is not serviced;

d) elimination of the B737 into Watson Lake and replacement with a smaller aircraft;

e) award of rights into Watson Lake to PWA on days when CP Air does not operate;

f) acknowledgement of the need to subsidize air travel in northern Canada; and

g) allowance of "de-bushing" costs as deductions for income tax purposes.

In cross-examination, Mr. Heinmiller for CP Air pointed out that PWA is free to apply to serve Watson Lake if it so wishes. He also stated that in the past year, CP Air had rerouted aircraft directly from Fort Nelson to Whitehorse on seven occasions. In response to a question, Mr. Penno stated that he did not know what proportion of the mail volume he had mentioned was moved by surface transport.

Under cross-examination by Mr. T.A. Kapty, general manager of Trans North Turbo Air, Mr. Penno indicated that Brinco Mining allows each employee two air fares a year. Not all of these are used, in part because of the inadequate air service.

James Mutch, Director, Western Canada Services, CP Air

Mr. Mutch did not present any direct evidence but responded to cross-examination.

Mr. Lundale pointed out that seven diversions of flights from the south to Whitehorse was a significant number when the winter schedule had only three flights a week. Mr. Mutch advised Mr. Penno that as much advance notice of such reroutings was given as humanly possible. Since the rerouting decision is normally made at least three days in advance, he was puzzled that passengers were not being made aware in advance.

In response to Peter Fairman for the Department of Economic Development of the Yukon government, Mr. Mutch suggested that a combined turbo-prop/jet service to Vancouver with two different carriers would likely have a higher fare than the present CP Air fare because it would involve the sum of the fare for two separate sectors.

Under cross-examination by Ms. Burnham, Commission counsel, Mr. Mutch made the following points:

1. Costs in the north are higher than in the south partly because of higher costs for items such as fuel and labour and partly because of the low level of productivity inherent in very low volume markets.

2. CP Air's load factor between Vancouver and Whitehorse at the present time is around 68% to 72% while that between Watson Lake and Fort Nelson is around 24%.

3. CP Air offers many types of fares on northern routes, the highest discount being about 35% for the Totem Fare, a fare which is available out of all northern points throughout the year. The highest discount in the south is about 50%. Differences in discounts between the north and south reflect marketing philosophy and differences in the sizes of markets, not differences in the amount of competition.

4. CP Air sets aside a certain number of seats at discount prices out of each location. Sometimes

the airline is blamed for lack of availability when in fact it is a government regulation that forces sales to be stopped 14 days in advance of a flight.

5. The airline tries to offer the same quality of in-flight service on all routes within the constraints of available catering facilities.

6. CP Air has examined the possibility of collaborating with other carriers to provide service in very thin market areas such as Watson Lake.

In response to re-direct examination by Mr. Heinmiller, Mr. Mutch stated that excursion fares with discounts around 40 to 45% are available from Watson Lake to transcontinental points.

DAWSON, YUKON, THURSDAY JUNE 28

Peter W. Jenkins, Mayor, City of Dawson

Mr. Jenkins started by reading into the record two telexes sent to the Air Transport Committee by the city earlier in the month. The telexes supported the operation of a Class 2 service by Trans North Turbo Air (TNTA), indicating that the airline is providing the best scheduled service that Dawson has received to date. However, concern was expressed about the appallingly high cost of the service and the type of aircraft used. Since August 1981, the lowest fare available from TNTA has increased by 41% compared with an increase of only 13% for CP Air's lowest fare into Whitehorse and a decrease of 7% for CP Air's excursion fare between Vancouver and Toronto. Some passengers refuse to fly on TNTA's DC-3's. City Council opposed the granting of further route protection to TNTA, stating that competition between the three Whitehorse-based charter operators had kept increases in charter rates over the past three years to acceptable levels.

Mr. Jenkins went on to describe the City's position with regard to CP Air, the main carrier into the Yukon:

1. Its regular fares are too high, particularly when account is taken of the 70% or greater load factor achieved on the Whitehorse route. However, its excursion fares are reasonable.

2. The airline is too slow to respond to seasonal changes in demand. During this and previous springs, passengers had difficulty obtaining seats

while freight coming into Whitehorse was bumped quite extensively.

3. The level of service provided for air freight is low with guaranteed freight taking four days from Vancouver to Dawson and two or three to Whitehorse. Sometimes difficulty is encountered in transferring cargo from CP Air to TNTA, especially on weekends.

Mr. Jenkins then reiterated concerns about the high charges by TNTA, emphasizing in particular the City's view that they were damaging to tourism, one of the principal industries in Dawson. Although excursion fares are offered, these are not available to tourists in Whitehorse who make a spur of the moment decision to visit Dawson.

During cross-examination, Mr. Kapty of TNTA suggested that the fare comparison made by the City did not compare like with like since it did not take into account an excursion fare offered by TNTA in August 1981. Mr. Jenkins agreed that such a fare might have been available but was not well publicized. Mr. Kapty pointed out that most airlines including TNTA offer tour-based fares designed to encourage tourism and that such a fare is available between Whitehorse and Dawson. Mr. Jenkins suggested that, if this fare were offered to the general public on an ongoing basis, it would encourage traffic.

In reply to Ms. Burnham, counsel for the Commission, Mr. Jenkins stated that he believed that less route protection and fewer regulations would in the long run be beneficial to people living in the north. He then advised the Chairman that the Dawson airport is inadequate in some respects, in particular because it lacks lighting. Ideally, it should be relocated closer to the city.

<u>David Horner, Manager, Yukon Operations, Finning Tractor and Equipment Co. Ltd.</u>

Finning Tractor's principal activity is that of a dealer for the Caterpillar Tractor Company. It operates a major branch in Whitehorse with depot facilities at several locations in the north including Dawson.

Mr. Horner described the importance of high quality air freight service to his company to handle essential parts when machinery breaks down. Because of the very short operating season for activities such as placer mining, much equipment is operated for 20 to 24 hours a day so that the value of lost production when equipment breaks down can be enormous. Fast and reliable air service is thus very important, with cost being a secondary factor. His company considers that cargo is given

second priority by the airlines on the Vancouver/Whitehorse route. Given that the costs for guaranteed air freight are very high, a very high level of service should also be provided.

Mr. Horner suggested that deregulation could have a negative impact by reducing the level of service between Vancouver and Whitehorse during the non-tourist season and by threatening the existence of service on some routes within the Yukon. The current service between the major communities is safe, reliable and efficient although air fares and freight rates are very high. His company would like to see the fares and rates reduced but not at the expense of lower service levels.

Finning Tractor requires a greater flight frequency between Vancouver and Watson Lake. Mr. Horner suggested this could occur if Watson Lake was served by aircraft smaller than the B737, perhaps through a hub such as Whitehorse.

John Wierda, Chairman, Klondike Visitors Association

The Klondike Visitors Association exists to promote tourism in the Dawson part of the Yukon Territory. To some extent it also speaks for the business community since the city does not have a Chamber of Commerce. In his brief, Mr. Wierda made the following points:

1. The service provided by TNTA is excellent compared with that supplied by previous carriers, with most flights adhering to the schedule.

2. Although costs in the north are higher than in the south, some air fares seem too high, in particular that between Dawson and Whitehorse.

3. A reliable air service is important to the continued growth of Dawson. Deregulation could jeopardize such service by producing more service than necessary in the summer and little or no service in the winter.

4. Relaxation of regulations governing fares would allow TNTA to be more responsive to changes in the marketplace.

Mr. Wierda advised Mr. Kapty that TNTA could do a much better job in advertising the availability of special fares. The airline would also have to work hard to overcome a widespread view that travel by air from Dawson to Whitehorse is simply too expensive to contemplate.

In reply to Ms. Burnham, counsel for the Commission, Mr. Wierda stated that his recommendation concerning the regulation of air fares did not address the fences on discount fares but rather was intended to allow an airline to act quickly.

Mark D. Mather, President, Dawson City General Store Ltd.

Mr. Mather complimented TNTA on the dependable service it is providing and emphasized the importance of reliable service to businesses such as his own, particularly for the supply of spare parts. He feared that deregulation could damage the service.

Whitehorse Chamber of Commerce

Ms. Burnham read into the record recommendations made in a written submission from the Whitehorse Chamber of Commerce:

1. A move to deregulation is a positive step away from government involvement in business.

2. The transportation link to the north is essential to growth and development; any changes in policy that may interrupt service should be closely reviewed.

3. Daily jet service to and from Whitehorse is a minimum level of service that is acceptable to Yukon residents; increased levels are preferable.

4. Service levels on flights to and from the Yukon should be increased to provide the same level of service as on southern routes.

5. Discount fares similar to those on southern routes should be offered on northern routes.

6. A study should be instituted to determine the effect of deregulation on existing businesses.

Robert Laking, General Manager, Downtown Hotel

Mr. Laking confirmed that the level of service on the Whitehorse/Dawson route is very good although hotel guests at times mention that the price is high. Deregulation of the route might lead to lower prices and possibly even higher levels of service during the peak summer season. But there is concern that

it might also lead to a lower level of service during the much longer off-peak season. No action should be taken that would lower the cost of air service for part of the year at the expense of a lower level of service at other times.

Alfred Berger, Private Citizen

Mr. Berger suggested that only the good parts of deregulation in the United States are reported whereas little is said about the negative aspects such as the bankruptcy of many small air carriers. Deregulation in the north could result in absolutely no air service in the long winter months.

Joseph Muff, President, Alkan Air Ltd.

Alkan Air has operated a Class 4 charter service out of Whitehorse on a year-round basis for the past seven years. Mr. Muff felt that it was incorrect to consider air carriers in the north as immature. The view that under deregulation existing services were likely to deteriorate seemed to be based on the false premise that pirating would occur. In Mr. Muff's opinion, there is little opportunity for this to happen because almost no term contracts are available.

He was concerned about the weight groups used for license classification, suggesting that the dividing lines often do not correlate with seating capacities and create complications in planning equipment purchase. He was also concerned with positioning charges which are restricting the scope of his company's operations as additional charter carriers are licensed at other locations.

Mr. Muff advised Ms. Burnham, counsel for the Commission, that he favoured deregulation throughout Canada including the abolition of positioning charges. He also favoured combining weight groups A, B and C into one group for licensing purposes.

T. Alex Kapty, General Manager, Trans North Turbo Air, assisted by Arden Meyer, Assistant General Manager, and David Griffiths, Manager, Airline Services

In his brief, Mr. Kapty summarized the history of TNTA. It has provided service in northwestern Canada for the past 18 years. Its main base of operations is in Whitehorse from which it offers year-round Class 2, 3 and 8 scheduled service to all major Yukon communities as well as to Inuvik and Yellowknife in

the Northwest Territories and Juneau in Alaska. About half of its traffic connects with mainline carriers at Whitehorse, Juneau, Yellowknife or Inuvik. This constrains the scheduling of TNTA's flights and restricts the number of hours that can be flown on any given day.

Mr. Kapty highlighted the thinness of the market by pointing out that TNTA had carried 15 000 passengers in 1983 whereas the total population of the Yukon is only 23 000, of which two-thirds is concentrated in Whitehorse. He suggested that the fragile market and marginal economic viability of scheduled community air service are not fully understood by many proponents of deregulation. His airline is in favour of deregulation of passenger fares and cargo rates but is strongly against deregulation of entry to and exit from routes. The fragile market environment compounded by the extremely seasonal and uni-directional nature of air traffic at remote communities in the north, cannot sustain competitive services, whether charter or scheduled. Regular year-round scheduled service is essential to maintain the vital social, economic and governmental links within the Yukon.

In the United States, deregulation has benefitted people living in major centres, but 555 communities in the contiguous states are receiving scheduled air service only through the provision of subsidies to the carriers. A study by the United States General Accounting Office found that since deregulation, many small communities are faced with higher fares, smaller aircraft, inconvenient scheduling, unreliable service, and a frequent change of carriers, all of which have contributed to declines in the number of passengers carried.

High fares in the north are a result of a combination of thin markets and substantially higher operating costs than those incurred in the south. A flight crew of five can move a Boeing 737 load of 120 passengers whereas a crew of three is required to move a DC-3 load of 24 passengers; thus, there is one crew member for every 24 passengers on the 737 and one for every eight on the DC-3.

Mr. Kapty suggested that TNTA is operating as efficiently as possible. It has just announced the purchase of two EMB-110 Bandeirante aircraft, which will allow it to provide faster, more convenient service throughout its system. TNTA's system fares have increased by an annual average of 10.3% since February 1980 whereas the major carriers' fares have increased by an average of 18.2% per year. Over the same period, TNTA's fuel costs have increased by 20% per year. The airline's average fare per passenger-mile across its system of $0.68 is on average 12% lower than the similar fares of NWT Air, Air BC, Calm Air and Kenn Borek Air.

Mr. Kapty then discussed the various fare types offered by TNTA. Discounts vary from 16 to 50%, with 33% of its passengers taking advantage of some form of discount. If fares are deregulated, Mr. Kapty predicted an increase in the proportion of passengers able to take advantage of discounts. He emphasized the thinness of routes by presenting data showing that the average passenger load per flight in 1983 was 3.6.

In addition to proposing full deregulation of fares and no deregulation of entry and exit, Mr. Kapty recommended that route protection be continued as at present.

Mr. Kapty went on to respond to points made earlier in the day and during the hearing in Watson Lake:

1. The comparison of fares charged between Whitehorse and Watson Lake made by Mr. Periard in Watson Lake was invalid. Mr. Periard had suggested that, when CP Air ceased serving Watson Lake, the lowest fare it offered was $74.00 return whereas TNTA's lowest fare is now $244.00. Mr. Kapty stated that CP Air's excursion fare was $101.00 and that his airline now offers a seat sale fare of $128.00.

2. The comparison of fare increases implemented by CP Air and TNTA between August 1981 and June 1984 made by Mr. Jenkins earlier in the day was also invalid. CP Air's fares had increased by an almost identical percentage to those of TNTA over the period.

In response to cross-examination, Mr. Kapty assured Mr. Jenkins, mayor of Dawson, that purchase of the new Bandeirantes would not result in a fare increase. Although the aircraft represents a major capital investment, their direct operating costs are low. Mr. Jenkins suggested that some of the material presented by TNTA to compare its fares with those of other airlines in the north was misleading since it did not allow for differences in such factors as the cost of fuel. Mr. Kapty defended the comparison, partly by pointing out that it also did not allow for differences in factors which reduced the costs incurred by the other airlines.

Mr. Kapty suggested to Mr. Horner of Finning Tractor that, if route entry and exit were deregulated, he could foresee a situation where a carrier would offer scheduled service for the three or four peak months and simply park its aircraft for the rest of the year.

In reply to Mr. Muff of Alkan Air, Mr. Kapty stated that about half of TNTA's passengers travelled between the Yukon and other points. He also indicated that his airline operates its Class 3 routes to Class 2 standards because it believed that this was necessary to generate traffic.

Mr. Kapty and his colleagues responded to several questions from Ms. Burnham, counsel for the Commission, as follows:

1. TNTA basically tries to use a formula to calculate fares. However, in taking over routes from other airlines it has been forced to adopt existing fare structures which do not fit the formula. It would like to rationalise all fares, but this would require increases on some routes which the market would not bear.

2. With a couple of exceptions involving the transborder route to Juneau, all fares are made available on all routes.

3. Some of the standard fences applicable to discount fares are not appropriate to the north, particularly because many people tend to make last-minute decisions on travel.

4. The airline would like the flexibility to offer innovative fares, for example directional ones designed to fill seats in particular directions on different days of the week.

5. The Arctic Air Facilities Program has done a good job in upgrading facilities throughout the north although problems still exist, such as the lack of lights at Dawson.

6. TNTA's operations are not seriously affected by weather, other than at those airports where instrument flight rule operations are not possible.

7. Cargo accounted for 15% of revenues in 1983, of which 90% was generated by Old Crow, the only community not accessible by road.

8. Positioning charges are not a major concern and could be eliminated.

9. TNTA would be concerned if weight groups A, B and C were combined since this would eliminate the route protection which it has for its Group C aircraft.

Ms. L. Hoess of Dawson suggested that TNTA's free baggage allowance was lower than that of the major airlines and that the charges for excess luggage were very high. Mr. Kapty agreed but pointed out that the capacity of a DC-3 was very limited so that the airline had to generate as much revenue as possible from every pound carried. In order to maintain control

over the weight loaded onto its aircraft, TNTA does not interline baggage.

INUVIK, NORTHWEST TERRITORIES, FRIDAY JUNE 29

Vicki Boudreau, Vice-President, Inuvik Chamber of Commerce

The Chamber of Commerce is concerned with the possibility that deregulation in the north might be accompanied by a loss or reduction of the air services on which Inuvik relies heavily. At present, the airlines operate throughout the year, making adjustments to their services in response to seasonal changes in demand. Wide open competition could lead to some operators skimming off the heavy traffic in the peak season, making it very difficult for any airline to offer a viable year-round service. One airline could end up having an unregulated monopoly of the market. Deregulation could also result in higher fares as carriers seek to offset the revenues lost through the use of deep discount or loss leader fares on high-density, competitive routes.

Ms. Boudreau added the following points on behalf of the Chamber of Commerce:

1. The Air Transport Committee should consider making most special fares offered by the airlines apply system-wide.

2. The passenger tax may not be equitable in that passengers in the north have to pay the same tax as passengers who use much more luxurious facilities at airports such as Calgary International and Mirabel.

3. Airport operating costs must be controlled. Although the terminal at the Inuvik airport is being upgraded, rentals may be increased thus forcing the airlines to increase fares.

4. The present route structure allows the airlines to maintain an acceptable level of service. Any airport expansions in the area must be planned carefully to avoid splitting the existing traffic over more routes, thus damaging the route structure.

In response, to Ms. Burnham, counsel for the Commission, Ms. Boudreau stated that access to discount fares is a problem at certain times of the year and that jet service is essential for bringing in cargo. She advised Chairman Orange

that the Chamber's concerns about deregulation apply to both passenger and cargo services. She acknowledged that companies such as Dome Petroleum operate their own aircraft thus reducing the demand handled by the commercial carriers, but she pointed out that the requirements of the resource companies are often not compatible with the nature of scheduled services.

H. Douglas Whiteman, Private Citizen

Ms. Burnham read into the record a submission received from Mr. Whiteman on the subject of scheduled service connecting Norman Wells and Hay River via Fort Norman, Wrigley and Fort Simpson. Mr. Whiteman severely criticized a decision in which the CTC had licensed connecting services by NWT Air and Buffalo Airways instead of a direct service proposed by Nahanni Air Services. He considered the decision to be bad for the following reasons:

1. Direct service would be much more convenient than the service now offered, which requires a connection at Fort Simpson or Yellowknife. Current schedules provide 30 minutes to connect between a PWA flight from Hay River to Yellowknife and an NWT Air flight from Yellowknife to Norman Wells and do not allow same-day connection in the other direction. Thirty minutes is too short to transfer freight.

2. Nahanni proposed the use of small aircraft which would be more economic to operate than the larger, antiquated aircraft used by NWT Air and Buffalo Airways. The small aircraft would also have allowed more frequent service.

3. Nahanni had 53 supporters showing a potential of 1 500 passengers on the route whereas NWT Air had only two letters of support with no indication of potential traffic. Four of Nahanni's supporters were the local municipal governments of Norman Wells, Fort Norman, Wrigley and Fort Simpson, communities which would have benefitted from the service.

4. The CTC had taken the support for Nahanni as support for Buffalo and NWT Air, although Mr. Whiteman, for one, did not support their proposals.

Mr. Whiteman questioned the wisdom of a decision which seemed to be based on protecting the public from possible loss of service in the event of Nahanni becoming over-extended, when in

his judgement NWT Air and Buffalo were quite likely to cut back or suspend service when they found the route to be uneconomic.

Fort Providence Dene Band and Settlement Council Alliance

Ms. Burnham read into the record a submission from Jim Thom, Chief of the Fort Providence Dene Band and Michael McLeod, Chairman of the Settlement Council Alliance in support of the development of an all-weather airstrip to serve the community and the surrounding area. During both the freeze-up and the break-up of ice on the Mackenzie River, highway access to Fort Providence is severed for between four and eight weeks. During these periods, the airstrip is essential to the community's sense of belonging and well-being. It can easily be inoperative for the following safety reasons:

a) drainage problems;

b) a lack of lights;

c) a lack of beacon and weather observation facilities; and

d) a lack of ground-to-air and ground-to-ground radio facilities.

These safety factors intensify the community's isolation and cause extreme hardship to its residents by restricting medical evacuation, disrupting the postal service and limiting access to fresh produce. Once the airstrip has been brought to an acceptable standard, it would be of use as an alternative landing site when Hay River, Fort Simpson and Yellowknife are closed by bad weather.

The submission concluded by requesting that the Air Transport Committee either use its influence to have the Arctic Air Facilities Policy reinstated or identify alternative funding.

Michael Zubko, President, Aklavik Flying Service Ltd.

Mr. Zubko summarized the development of transportation services in the Mackenzie area from the early days of the century to the present day. Although air transportation is now the primary means of travel for passengers to and in the north and for some points is the only means for passengers and freight, the opening of the Dempster Highway connecting Fort McPherson and Inuvik with the Alaska Highway has reduced air freight volumes. Rates as a result have increased.

The vital role of air transportation in the north should be recognized by government. In particular, airports should be funded from general revenues as are highways in southern Canada; most taxation of aviation fuel in the north should be eliminated. Airports in the region should be better designed to improve efficiency and therefore to cut costs. The present policy of leasing land at airports should be changed; it discourages private development because after 25 years any improvements become the property of the Crown.

Mr. Zubko made several recommendations:

1. Eliminate user fees at northern airports.

2. Maximize efficiency at the airports for passenger and freight handling.

3. Reduce fuel taxes significantly.

4. Eliminate the tax on passenger fares.

5. Reduce lease prices and change the leasing policy to encourage private development.

6. Eliminate unnecessary reporting requirements.

He concluded by stating that Pacific Western provides service that is as good as or better than any in Canada. However, local carriers currently have too much equipment so that the licensing of any additional carriers would be damaging.

During cross-examination by Ms. Burnham, counsel for the Commission, Mr. Zubko described the importance of aircraft for medical evacuations in the area. Aklavik Flying Service undertakes many of them as well as charter services and special services such as survey work.

In response to additional questions, Mr. Zubko made the following points:

1. Aklavik's business fluctuates seasonally with low points in the spring and fall.

2. About one-third of its revenues come from cargo.

3. Private corporate aircraft significantly affect the commercial carriers.

4. Pirate private aircraft do not affect operations at the present time, partly because the exploration companies have introduced higher standards, particularly in the area of safety.

5. The positioning charge regulations should be retained.

6. The route protection regulations should also be retained.

7. The existing aircraft weight groupings are satisfactory.

Mr. Zubko advised Commissioner Chapman that he thought that public funding of airports should apply to communities where there is no reasonable alternative to the air mode. Rather than introducing subsidies to help people move between northern communities, he felt a better approach was to reduce fuel taxes.

Kenneth Gray, Vice-President, Central Region Pacific Western Airlines, assisted by Pierre Roy, Director, Regulatory Affairs and Dale Vance, Customer Service Manager, Inuvik

Mr. Gray outlined the history of PWA's operations in the north. Unit toll services were started in 1951 with jet service being introduced in 1969. Today, PWA files more than 7 000 hours a year on scheduled services in the north covering more than 2.6 million miles with an additional 0.5 million miles being flown on charter services. The airline itself spends $5 million annually in the Territories while 57 employees living in the north generate a demand for about $3.4 million annually in goods and services. When the normal multiplier effect is considered, the airline's impact on the economy is substantial.

Pacific Western offers B737 jet service to nine communities within the Territories. Although traffic density is low, the airline achieves reasonable frequencies by serving more than one community and combining passenger and cargo traffic on one flight. In 1983, more than 164 000 passengers and 15 million pounds of cargo were carried on scheduled services to, from and within the Northwest Territories and the Yukon. Payloads on flights to the Territories consist of approximately 30% cargo and 70% passengers whether measured by weight or by revenues. Cargo traffic is largely uni-directional.

Mr. Gray suggested that the current regulatory regime, which has allowed controlled competition without subsidy, is generally adequate and has served northern Canada well. Good frequency of service is a high priority of many northern residents and can only be achieved by avoiding erosion of traffic in the low-density markets. PWA has therefore advocated the continuation of route protection regulations and controlled competition using the public convenience and necessity test.

Mr. Gray then introduced an exhibit to illustrate that PWA's economy and excursion fares in the north compare favourably with fares in other regions and suggested that similar comparisons could be made on cargo rates. He pointed out that PWA's economy fare between Inuvik and Norman Wells, a distance of 276 miles, is 36.9 cents per passenger-mile, which compares very favourably with Air Canada's economy fare between Ottawa and Toronto of 43.8 cents per passenger-mile for a similar distance. PWA charges 26.5 cents per passenger-mile between Edmonton and Inuvik compared with the 31.1 cents per passenger-mile charged by Nordair for a similar distance between Frobisher Bay and Montréal. These favourable fare comparisons occur despite higher operating costs in the north which arise for several reasons:

1. Fuel accounts for 21% of PWA's operating costs on a system basis but 26% in the north.

2. Station and other costs, such as those for communications, are also higher in the north.

3. Low-density routes result in cost penalties because of low productivity.

4. Mixed configuration aircraft carry payload penalties and are 9% more expensive to buy than standard passenger models.

5. The uni-directional flow of cargo means that most southbound cargo capacity is non-productive.

6. Aircraft servicing costs are increased as a result of operating on northern runways, in particular landing on gravel strips.

Mr. Gray amplified the problem of scheduling aircraft to handle traffic on low-density routes by giving figures for the route linking Edmonton, Fort Smith, Hay River, Yellowknife, Norman Wells and Inuvik. Although the passenger load factor on the first segment from Edmonton to Fort Smith was 71% in 1983, the route as a whole had a load factor of only 26%.

Mr. Gray introduced a further exhibit comparing air fares available in the United States with those available in southern and northern Canada on routes of varying lengths and traffic density. He suggested that the exhibit demonstrated that PWA's regular economy and excursion fares in the north compare favourably with U.S. air fares on similar routes, including routes served by more than one carrier. He also suggested that similar comparisons could be made on cargo rates.

In describing the range of discount fares offered by PWA in the north, Mr. Gray pointed out that excursion fares at a 35% discount (B Class fares) have been available throughout its

system since February 1979. Between 10 and 15% of the total seats offered in the Northwest Territories are available through a B Class fare, by no means all of which are used. The level of discount offered is determined by a test of profitability and propensity to travel. Thus, the B Class fare is part of a surplus seat management program designed to stimulate the market while providing a contribution to revenues. However, the amount of stimulation that can be achieved in northern Canada is limited due to the low population density.

Pacific Western is actively involved in the promotion of the Canadian tourist industry and acts as tour operator, wholesaler and retailer for packaged tours featuring its destinations. It conducts and participates in seminars designed to instruct ground operators on how to package and market their products and helps to sponsor familiarization tours for travel agencies and the media.

In conclusion, Mr. Gray indicated that communities in the north benefit from being part of Pacific Western's route system through access to the total mix of pricing available throughout that system, reliable service, and direct access to computerized reservations to anywhere in the world.

In response to cross-examination by Ms. Burnham, Commission counsel, Mr. Roy advised the hearing that Pacific Western uses the following formula to set economy fares:

a) a terminal charge, which covers the first 100 miles; plus

b) a rate per mile for 101 to 200 miles; plus

c) a slightly lower rate per mile for 201 to 300 miles; plus

d) a slightly lower rate still per mile for all additional mileage.

The formula is used across PWA's system except where it competes against the major national carriers, in which case it normally matches the competition and on the Calgary-Edmonton Air Bus route where the fare is about 21% lower than the formula fare. Although PWA offers a relatively low fare between Vancouver and Whitehorse, it does not consider itself to be competing in this market as it does not offer direct service; the fare matches one filed by CP Air. The fare formula is based on total costs within PWA's system; higher costs in the north are thus averaged throughout all fares. Cargo rates are based on a formula as well.

In response to further questions by Ms. Burnham, Dan Holman, publisher of The Inuvik Drum, and the Chairman, Mr. Gray made the following points:

1. Some of the airports in the north are inadequate in certain respects, but this causes few problems for PWA.

2. The existing fences on discount fares are appropriate in the north.

3. Only first-class mail for Inuvik is being delivered to PWA by the Canadian Post Office. Other mail is being trucked and as a result probably takes about six days instead of 24 hours by air.

4. Medical emergencies are responded to immediately, even if this means that confirmed passengers are denied boarding.

5. Even if all visible taxes in the north were removed, the cost of air transportation would not drop significantly.

Dan Holman, Publisher/Proprietor, The Inuvik Drum

Mr. Holman prefaced his remarks by stating that he is almost always served quite well by Pacific Western in his dealings with regard to freight. However, since June 1981 the rate he is charged to fly his newspaper north to Inuvik has increased by 125%, partly as a result of reclassification into a higher rate group. Mr. Holman wondered if the competition that would result from deregulation would result in a better rate for a business person such as himself who can commit to using freight service on the same day of almost every week in the year. He believed that some carrier would offer him a better rate, thus reducing the current cost of $0.28 per copy just for freight.

In response to questioning by Mr. Wallis for PWA, Mr. Holman agreed that he was now paying a rate which guaranteed his newspaper would arrive on a certain day whereas three years ago he was paying a general rate which had no such guarantee. He advised Ms. Burnham that he was prepared to risk the possibility that increased competition could result in reduced profitability for the airlines and therefore reduced service. He advised Commissioner Bourret that he had checked alternative means of transportation and locations for printing his newspaper, but that the present arrangement of printing near Edmonton was the best because of PWA's daily flights.

Thomas Zubko, General Manager, Aklavik Flying Service Ltd.

Mr. Zubko suggested that there was already adequate competition in the Inuvik and Beaufort areas, with no route protection being afforded to any of the carriers in Inuvik. The result is that the interest of consumers is being looked after adequately. Open access could have a detrimental effect. In the short term, new carriers would drain business from local carriers and damage profitability, with the longer term result being an increase in rates. New carriers would also have difficulty establishing themselves because of a lack of knowledge of local customers and local conditions.

Mr. Zubko suggested that there is room for some loosening of tariff regulations to make it easier for a carrier to give reduced rates for certain types of work. He cited as an example, the possibility of allowing a carrier to offer rates for tour packages on a unit toll basis rather than on the more cumbersome basis of charters.

In response to Ms. Burnham, counsel for the Commission, Mr. Zubko suggested the following:

1. The tariff regime could be improved by shortening the filing times and by ensuring that filings for specific purposes do not have a bearing on normal tariffs.

2. Advanced Booking Charters are not helpful, at least in part, because of the time required for approvals.

THOMPSON, MANITOBA, TUESDAY JULY 3

Nazir Ahmad, Mayor, City of Flin Flon

Mr. Ahmad emphasized the importance of air travel to Flin Flon and to northern Manitoba in general. Since 1975, the number of flights between Flin Flon and Winnipeg has declined from seven per week to five as of December 1983. The city is concerned that under deregulation the stability and continuity of the service could be adversely affected. It fears that flights may be further reduced and that jet service may be discontinued. Loss of jet service would represent a decline in the quality of the air service because of an increase in the length of flights and the possibility of more weather delays.

Using the United States experience as guidance, Mr. Ahmad suggested that Flin Flon and northern Manitoba would

not benefit from deregulation through reduced air fares and improved service. In the U.S., these benefits have been enjoyed only by the larger cities and more populated areas. He suggested that some regulations are necessary to ensure that the air industry serves the public interest as effectively as possible on a national basis rather than serving the heavily populated areas only.

Although there may be room for relaxation of some regulations, other regulations are necessary to ensure:

a) that a certain minimum quality of service be maintained; in particular, this regulation would specify the size of aircraft, its ability to fly in poor weather conditions and its speed;

b) that the fare situation be equitable, that is comparable on a per mile basis throughout the country, perhaps requiring some form of subsidy; and

c) that air service be available without interruption.

Under cross-examination by Ms. Burnham, counsel for the Commission, Mr. Ahmad indicated that five flights a week into Flin Flon represented a minimum acceptable level of service. The city might be prepared to accept more frequent flights in non-jet aircraft as a substitute for the existing jet service if it could be guaranteed that the non-jet aircraft would be able to operate in poor weather conditions and would not increase the journey time too much. However, Mr. Ahmad was sure that this would not happen in a deregulated environment.

In response to Commissioner Chapman, Mr. Ahmad emphasized the importance of good quality air service in attracting people to stay in remote northern communities. Although a good highway is available between Flin Flon and Winnipeg, it takes about 11 hours to drive versus an hour and ten minutes to fly.

Commissioner Bourret pointed out that Flin Flon lies just to the south of the boundary line between the regulated and deregulated zones specified by the Minister of Transport. Mr. Ahmad argued that Flin Flon should be included in the regulated zone and suggested that the boundary line should zig zag if that is necessary to ensure consistent treatment of communities in similar situations.

Bruce Unfried, Mayor, Town of The Pas

Mr. Unfried started by pointing out that many of his town's concerns are similar to those expressed on behalf of the city of Flin Flon since the two communities are only 140 kilometres apart. In the short term, deregulation is likely to result in increased competition as small airlines vie for business, but, in the longer term, the results are uncertain. Mr. Unfried cited the example of a carrier based in Swan River which had started a service between Flin Flon, The Pas, Swan River, Dauphin and Winnipeg last year but which had just gone out of business. The Council of the Town of The Pas is very concerned about issues such as how the impact of deregulation on affected communities will be measured and what safeguards will be put in place to ensure that a reasonable level of air service will be maintained. Any level of service lower than the jet service now being offered by PWA would be unacceptable.

Mr. Unfried stated that his community had difficulty assessing the impact of deregulation. Based on experience in the United States, the community feared a continuum whereby deregulation would be followed by an increase in the number of air carriers, more flights at no great discount, a levelling-off process with some carriers dropping out of sight and finally cutbacks in jet service. About the only positive benefit of deregulation that could be foreseen is the possibility of obtaining volume discounts for the Northern Patient Transportation Program.

Mr. Unfried advised Ms. Burnham, Commission counsel, that, if deregulation is to be introduced, it should happen in stages to ensure that the impact on communities can be measured. He also suggested that communities in northern Manitoba are too small to support more than one carrier on one route. Recent experience with small carriers has been bad so that Mr. Unfried would not trade the jet service provided by PWA on six days each week for twice daily turbo-prop service, particularly as the community is very happy with the service provided by PWA.

Jerry Storie, Minister of Northern Affairs, Government of Manitoba, assisted by Dennis Schaefer, Manager, Transportation Policy Branch, Province of Manitoba

The Government of Manitoba has mixed views on the New Canadian Air Policy announced in May and has reserved its position until such time as the uncertainties are removed and the policy is translated into action programs. Mr. Storie indicated that his government is appreciative of the fact that the new policy for the most part reflects its recommendations on the definition of "the north", simplifications of Air Transport

Committee procedures, and control over the upper limit of air fares. However, it is concerned that The Pas and Flin Flon are now in the liberalized zone and plans to request a change of the regulatory border to a more southerly trajectory across Manitoba starting at the 50th parallel on the Ontario border and finishing at the 53rd parallel on the Saskatchewan border.

Mr. Storie went on to make the following points:

1. The Manitoba government is concerned about the possibility that deregulation could lead to the loss of jet service to Brandon, The Pas, Gillam, Thompson, Flin Flon, Lynn Lake and Churchill and would strongly oppose such service reductions.

2. Regulatory changes are required to assist local carriers providing essential services to northern and remote communities.

3. Air fare and rate reductions should be applied on a system-wide basis to avoid discrimination and to prevent cross-subsidization of low fares on southern routes by northern travellers.

4. Particularly in the low-density markets of northern Manitoba, competition in itself will not guarantee low prices consistent with requirements for safety and reliable service.

5. All modes of transport require direct or indirect subsidies to provide access and egress opportunity as well as to stimulate economic and regional development. The Manitoba government has provided intensive support to the air industry for many years with the objectives of meeting community needs and reducing air fares and rates. It has built 35 airstrips in northern and remote communities and continues to bear most of the costs of operating and maintaining these facilities. Similarily, the federal government has provided airports at six northern Manitoba points and has supplied navigational aids at major centres.

6. Despite this support, many local air carriers have experienced financial difficulties, while northern and isolated communities still face high fares and rates. This suggests a need for policy adjustments as well as increased support. So long as public funds are involved in the system, the public interest must be protected through effective regulatory control.

7. The Manitoba government supports federal plans to develop local service demonstration projects in consultation with communities and carriers. Consideration should also be given to providing financial support to local operators for the organization of new, more efficient aircraft.

8. The present system of air fares should continue to be based on the "just and reasonable" test, with the Air Transport Committee setting the maximum level of discounting based on incremental costs.

9. Route protection is necessary to encourage safe and reliable unit toll service to northern and remote communities. However, competition should be encouraged when practical through charter operators.

During cross-examination by Ms. Burnham for the Commission, Mr. Storie suggested that, if the federal government provided funds to improve and lengthen runways and to extend navigation aids, this would reduce carrier operating costs by allowing them to use more efficient aircraft types and to increase aircraft utilization. He stated that concern about maintenance of jet service was based on the belief that such service is important in helping the smaller communities grow. In his opinion, the best role for the province in monitoring service in the north should be an informal one.

Mr. Schaefer advised Commissioner Chapman that Manitoba had had discussions with Saskatchewan regarding the dividing line between the regulated and deregulated areas. Saskatchewan would find no difficulty in having the line extend from the 53rd parallel at the Manitoba border to the 55th at the Alberta border. Mr. Storie advised Commissioner Bourret that Manitoba is very flexible on the positioning of the line, pointing out that whatever position is finally chosen has to be arbitrary. He suggested that, before a final decision is made, input should be received from all communities close to the boundary.

Rod Murphy, Member of Parliament, Churchill

Mr. Murphy suggested that the issue was not one of regulation versus deregulation but one of finding the correct balance between regulation and deregulation. On balance, most northerners would opt for the present system rather than the one proposed for the south. Even under a regulated system, several air carriers in Manitoba, particularly in the east, have failed with a resulting loss of service, at least on a temporary basis. There are no easy solutions to the problems of providing service in the north. However, Mr. Murphy agreed with some of the points

made by the province, in particular with the benefits to be gained by providing direct subsidies to some of the carriers and by improving some of the airstrips.

He suggested that deregulation in the south could well hurt the north by allowing carriers to increase in size, citing the reduction in service to certain Manitoba communities when PWA took over Transair. In the United States, deregulation has resulted in substantial reductions in service to many cities in North Dakota, South Dakota and Minnesota despite government subsidies being available to the smaller communities.

Although he supported the idea of system-wide discount fares, Mr. Murphy felt that it would be very difficult to implement such fares except through government regulation. Any recommendations by the Air Transport Committee should be designed to provide services to northerners, to allow for some carrier competition, and to encourage cheaper fares.

In reply to Ms. Burnham, counsel for the Commission, Mr. Murphy stated that he would like to see some streamlining of the regulatory system to speed up the processing of applications. He would also like to see an increase in charter operations in some communities provided this can be achieved without affecting scheduled services. The line between the regulated and deregulated areas appears to be quite arbitrary with the third largest city in the province, Thompson, lying to the north and smaller communities such as Flin Flon and The Pas lying to the south. The 53rd parallel would be a good alternative.

Charles Mortimer, General Manager, Norman Regional Development Corporation, assisted by Mike Babulic, Member, Board of Directors

The Norman Regional Development Corporation (Norman R.D.C.) is a non-political organization whose membership includes all but one of the municipalities in Manitoba north of the 53th parallel, the major corporate employers in the area, the two Indian Tribal Councils, the Manitoba Metis Federation and Tourism Manitoba north of 53. The Manitoba Federation of Labour is also involved. The Norman R.D.C. is financed by its members and by the Manitoba and federal governments. It favours the expansion of air service in northern Manitoba and competition in the provision of that service but remains concerned with the fragility of unit toll service both within northern Manitoba and between northern Manitoba and other points. In addition, the following points were made in the brief read by Mr. Mortimer:

1. The issues associated with regulation and deregulation are complex and difficult to evaluate.

Precipitious action could work to the serious detriment of communities in northern Manitoba.

2. The costs of air transportation should be reduced if possible since high costs are discouraging the use of air transport. Initiatives such as frequent-flyer programs, bonus coupons and discount fares should therefore be encouraged.

3. Safety and reliability must be maintained. Ideally, each community should be provided with twice-a-day air service allowing direct connections to other communities.

4. Fares for compassicnate travel should be easily available, with a statutory declaration from an applicant being sufficient proof of qualification.

5. Substantial pricing flexibility should be permitted. Group fares and rates for non-priority shipments should be left to negotiation between the group or shipper and the carrier, provided that the fares, rates and terms are made generally available.

6. The normal distinction made between discretionary and non-discretionary travel may not be valid in the north because high costs result in travel being undertaken for a number of unconnected reasons.

Mr. Babulic added to the brief by observing that jet service is important to northern communities because its speed allows travellers to make same-day round trips and still achieve a full day's work in the community visited. He also believed that the air carriers were in a better position to offer service if they used jets rather than smaller aircraft since they had better alternative uses for them in off-peak times.

Mr. Mortimer advised Ms. Burnham, Commission counsel, that he saw a role for the Norman R.D.C. in monitoring northern air services. Mr. Babulic suggested that since provision of regular scheduled service was extremely important, charters should not be approved if they would simply skim business from the unit toll carrier.

Adrian De Groot, Chairman, Thompson Industrial Commission, assisted by Doug McEwen, Secretary

The Thompson Industrial Commission has focussed much of its interest on the development of the infrastructure for road, boat and air transportation. The Commission acknowledges the necessity of a temporary line between the north and south for air

transportation but believes that it should be replaced at the earliest possible date by a policy which varies the level of regulation according to differing types of air centres and/or types of point pairs. The Commission commented extensively on the interim report on deregulation issued by the Air Transport Committee early in May:

1. The existing distinctions between regional and local airlines need to be reviewed. For example, some distinction may be useful between regional carriers which fly between national and regional centres and those which fly between regional and local or remote communities. As another example, criteria should be established defining how a local carrier can become a small regional carrier and how a small regional carrier can become a larger one. The greatest level of protection should then be provided to small local carriers flying between remote centres.

2. The degree of competition to unit toll carriers from charter ones should be carefully managed, with opportunities for competition being allowed within limits which provide for stability of the unit toll carriers.

3. Operations by local air carriers in aircraft of weight groups D and E between national centres and remote communities should be restricted in order to encourage the development of strong regional air centres.

4. The number of discount seats available between Thompson and Winnipeg is frequently low and should be increased.

5. The Air Transport Committee should examine air fare subsidies in the context of cost differences for north/south traffic in comparison to east/west traffic in southern Canada.

6. A mechanism should be found to make low fares available to people who are required to fly for compassionate reasons.

7. A higher level of personal care and attention for handicapped people should be encouraged in the north while recognizing the limitations on available equipment and facilities.

In conclusion, the Thompson Industrial Commission made the following recommendations:

1. In deciding on areas of regulation and control which may be reduced in regional and remote locations, the Air Transport Committee should recognize the importance of stability to an industry which does not enjoy the economies of scale which exist in larger southern markets.

2. Unbridled competition is not practical in some regional and remote areas, but there is probably room for some increased competition.

3. When direct competition is not practical and a community is dependent on air, consideration should be given to air fare subsidies where costs are clearly higher due to remoteness and low passenger volumes.

Robert Kerr, Traffic and Communications, Cullaton Lake Gold Mines Ltd.

Cullaton Lake Gold Mines is a major user of charter aircraft between Thompson, Churchill, Rankin Inlet, several Keewatin communities and Cullaton Lake in the Northwest Territories. Mr. Kerr pointed out that the annual cost of maintenance of the Cullaton Lake airport is about $650 000. It is an all-weather emergency strip available to any aircraft operating in the area. He recommended that the federal government should assist in the cost of operation and maintenance of the Cullaton Lake airport and of other airstrips used for similar purposes.

Mr. Kerr made the following additional points:

1. His company has experienced serious delays in chartering Hercules aircraft to handle oversize cargo, including one delay of over a month. Since only one Canadian registered Hercules is available for charter in Canada, Cullaton Lake should be allowed to charter a non-Canadian aircraft if it sees fit.

2. When the company charters HS-748 aircraft, it is charged the air transportation tax based on the number of passengers carried. Since fuel is included in the cost of the charter and since the fuel cost includes a substantial tax component, the air transportation tax is a tax on a tax.

3. Since the air transportation tax is presumably designed to upgrade and maintain commercial airports and since Cullaton Lake Gold Mines

maintains its airstrips and equipment and provides weather information at no cost to the government, Cullaton Lake should only have to pay 50% of the tax for its operations.

Kenneth Gray, Vice-President, Central Region, Pacific Western Airlines, assisted by Pierre Roy, Director, Regulatory Affairs and Doug Holloway, Customer Service Manager, Thompson

Mr. Gray summarized the history of PWA's operations in northern Manitoba. Scheduled services started in the early fifties, with service to Thompson initiated in 1961 and jet service to the region in 1970. Scheduled services in northern Manitoba currently involve some 22 000 hours of flying, or about 4.6% of total unit toll operations. This is lower than the level recorded in the peak years of 1980 and 1981 as a result of declining demand, particularly from the mining industry. In 1983, 95 300 passengers were carried on unit toll services, down 5% from 1982.

PWA offers relatively high frequency of service into northern Manitoba by servicing several communities on one flight, thus overcoming the problem of low demand in individual markets. Although individual segments may not produce adequate load factors, the combination of segments results in a viable service.

Mr. Gray introduced an exhibit showing that PWA's economy and all-year excursion fares in northern Manitoba compare favourably with fares in other regions of Canada. The fares are based on a formula applied throughout the airline's total network. Mr. Gray quoted examples similar to those presented at the hearing in Inuvik to demonstrate that his airline's fares are similar to those charged in higher density markets of comparable distance in southern Canada. They are also similar to or lower than those charged in markets of comparable distance in the United States. In the northern Manitoba market, PWA offers year-round excursion fares at a 35% discount (B Class fares) in addition to a variety of discount fares for families, senior citizens, youths, children and groups. The B Class seats have been offered since February 1979 as part of a system-wide controlled inventory product. In northern Manitoba, they represent about 21% of the total seats offered, by no means all of which are used.

PWA's pricing of its normal economy fare is based on a formula which must ensure that the consumer continues to find the product attractive and that the fare meets the test of profitability for a given traffic demand. Discount fares are priced to stimulate the market and to provide a contribution to revenues. However, the extent to which stimulation can occur is

limited. For example, Thompson already generates 41 000 enplaned and deplaned passengers a year from a population of only 13 000.

As a matter of corporate policy, Pacific Western supports the development of the tourism industry. Not only is this essential to traffic growth but it reflects the airline's responsibility to the communities it serves. The airline believes that northern communities benefit from being part of a larger route network by receiving the total mix of pricing available throughout the system, by being offered reliable service, and by having access to excellent communications links.

In response to Ms. Burnham, counsel for the Commission, Mr. Gray confirmed that a significant percentage of B Class seats was unused. He reconciled this with the concern about a lack of discount seats between Thompson and Winnipeg expressed earlier by Mr. De Groot by pointing out that loads vary by day of week and by time of day. Since B Class fares are offered as part of a surplus seat management program, fewer are offered at peak times than at off-peak ones. In 1983, cargo accounted for $800 000 out of total revenues of about $12 million in northern Manitoba. In the same year, the load factor in that area was 52.3% versus a system load factor of 52.4%.

Mr. Gray advised the Chairman that despite higher costs in the north for staff, facilities and fuel, and despite lower productivity because of low frequency of service, Pacific Western uses the same fare formula as in the south.

Joseph Barnsley, Counsel for Calm Air,
assisted by Garry Beaurivage, Operations Manager

Mr. Barnsley submitted for the record the 1981 census populations of communities served by Calm Air, showing that most have fewer than 500 people. Almost all are served by Twin Otter aircraft. He emphasized the importance of providing airstrips for small communities in the north; without such strips, service cannot be provided during spring break-up and fall freeze-up. If subsidies are to be provided, the most practical method is to provide capital assistance to upgrade equipment.

Barney Lamm, President, Nunasi Central Airlines

Mr. Lamm indicated that Nunasi Central Airlines takes the same position as many of the other carriers. It does not believe in complete deregulation; instead, minor changes should be made to the rules, for example making it easier for carriers to apply for licenses, in part by reducing the time required. Some equalization of fares should also take place.

In reply to Ms. Burnham, counsel for the Commission, Mr. Lamm stated that he supported the idea of combining weight groups A, B and C, particularly the first two. He felt that this would simplify matters both for the operators and for the CTC.

SIOUX LOOKOUT, ONTARIO, WEDNESDAY JULY 4

John E. Parry, Candidate, New Democratic Party for Kenora/Rainy River

Mr. Parry described the major improvements which have taken place at the Sioux Lookout airport over the past ten years. During that time, scheduled air services have expanded considerably both at Sioux Lookout and at other communities throughout the Kenora/Rainy River area. In view of these recent developments, Mr. Parry felt that the federal government had been wise to include the communities in the area where regulation will be maintained. This gives them the opportunity to see what happens in other parts of the country before deciding whether they would be better off in a regulated or deregulated environment.

In Mr. Parry's opinion, the most important aspect of air service for residents of the Kenora/Rainy River area is not cost but rather safety, followed by convenience of the schedules, particularly for making connections. In both regards, the scheduled carriers measure up well today. Some improvements have been made over the past few years to the equipment used while the schedules offered are generally sensible and allow for good connections. However, occasional problems occur with some charter services.

Over the past ten years, the cost of passenger travel has reduced not only in real terms but probably in nominal terms because of the extent to which scheduled service has replaced charter service. The cost of moving freight has increased in nominal terms but has probably declined in real terms because of the use of larger aircraft. In the past, the local carriers had difficulty competing with norOntair and Nordair so that it used to be much cheaper to drive to Dryden and fly from there to Thunder Bay than to fly direct from Sioux Lookout to Thunder Bay. With the recent reduction in provincial subsidies to norOntair and increases in fares on mainline routes, air fares have become more consistent within the region so that the local carriers can compete reasonably well. Mr. Parry's only criticism on fares was the limited availability of some discount fares. He also suggested that the local airlines should consider offering cash discounts.

Regulation and route protection have generally had positive effects in the area, for example by preventing predatory pricing. However, Mr. Parry was not sure what purpose positioning charges were serving.

Mr. Parry suggested that whatever subsidies are provided to communities in the Northwest Territories should also be provided to communities in the Kenora/Rainy River area, particularly those accessible only by air.

In reply to Ms. Burnham, Commission counsel, Mr. Parry stated that limited availability of discount fares was not a major problem but that the airlines might reduce discontent amongst their customers by specifying the number of seats being made available. For most destinations, the local carriers offer discounts on return fares and for senior citizens and also offer standby fares.

William Deluce, Executive Vice-President, Austin Airways Ltd.

Mr. Deluce outlined the history and current operations of Austin Airways. The year 1984 marks 50 years of continuous service in Canada, making the airline the oldest continuously operated one in the country. Class 2 service is now provided to about 30 communities throughout northern Quebec and northern Ontario. Of a total staff of 350, about 50 are native people from the northern parts of Quebec and Ontario. The airline operates aircraft ranging in size from light twins to HS-748's. Its principal base is at Timmins with other major facilities at Thunder Bay and Pickle Lake.

In northern Ontario, Austin Airways operates primarily to points where air transport is the only means of year-round transportation. These remote settlements range in size from 200 to 1 500 people, the majority having a population of 400-600. Traffic is split 60% cargo and 40% passenger, with most being carried on scheduled services. About 90% of unit toll services are of the linear type as opposed to the hub and spoke type as this allows the airline to provide optimum frequencies to each community served. Highest load factors on each route are generally achieved on the first sector in the south. Since the early seventies, great improvements have been made to the facilities available in northern Ontario as a result of the provincial government's remote airport program, allowing Austin Airways to upgrade its aircraft equipment and services.

From February 1980 to 1984, the average price paid for fuel in northern Ontario has increased by 98% so that fuel now accounts for 30% of Austin's costs. Austin's fuel varies in price from $2.91 per gallon in Toronto to $6.41 at Winisk where the fuel has to be flown in. Between June 1980 and June 1984,

Austin increased its fares on average by 51%; in contrast, Air Canada's fare between Timmins and Toronto increased by 60% over the same period.

Although freight costs are significant in the north, they do not come close to accounting for the differences in prices charged for commodities such as groceries between northern and southern points. Mr. Deluce cited the example of a 10-kilogram bag of flour retailing for $17 in Trout Lake as against $7 in Sioux Lookout with freight costs accounting for only just over $3 of the difference. Whenever Austin Airways has been able to switch from using seaplanes to using a new airstrip, it has been able to reduce freight charges substantially through the use of larger aircraft.

In addition to normal economy fares, Austin offers discounts of 25% for special fares for children, senior citizens and youths as well as for a round-trip excursion fare. There are no restrictions on the number of seats available for the excursion fare nor does it have any time fences. Depending on the route, between 40 and 70% of passengers take advantage of it. In addition to the basic rate for cargo, discounts are offered for bulk shipments.

Mr. Deluce was very pleased that the Minister of Transport had recognized the differences between northern and southern parts of Canada in defining the area where a liberalized regulatory regime will be introduced. Northern markets are very different from those in the south because of the extremely low passenger demands and the corresponding need to combine passengers and cargo on all aircraft in order to produce reasonable frequencies. Although he supported continued regulation in the north, he recommended that the application process be streamlined to reduce the time involved.

Austin Airways supports the need for a system to justify fare increases. However, any procedures should allow room for variations in cost from one area to another rather than working on a national averaging basis. In the same way, an airline should be allowed to reduce fares on particular routes rather than being forced to apply reductions throughout its system.

Mr. Deluce made the following recommendations:

1. The passenger transportation tax should be eliminated in the regulated zone. Since the tax applies only to aircraft over 12 500 lbs, it penalizes an airline such as Austin when it tries to upgrade service by introducing the HS-748. If the government waived this tax and other charges such as landing fees in the northern zone, there

would be no need for any type of government subsidy, other than for fuel.

2. A monitoring body should be established to ensure reasonable and accountable air transportation in the regulated zone. Membership should include representatives of the federal and provincial governments and of consumers.

3. Continued emphasis should be placed on improving the facilities and infrastructure in northern Ontario. In particular, more navigational facilities should be installed and communication and meteorological reporting systems improved.

Mr. Deluce was unable to advise Mr. Parry as to whether the carriage of mail was profitable for Austin Airways. He did advise that 90 to 95% of groceries sold in the north are shipped through Canada Post, with shipments being made by individuals and all sizes of organizations up to the largest retailers.

Mr. Deluce responded to several questions from Ms. Burnham counsel for the Commission as follows:

1. Austin Airways operates its Class 3 services to Class 2 standards; it publishes a timetable and flies to that timetable, irrespective of traffic.

2. Austin operates a section of the norOntair system between Kapuskasing, Cochrane, Timmins and Sudbury. NorOntair provides a very good quality air service to communities that are served by other modes; it thus, does not provide service to remote communities. It is a good example of government involvement in air transportation since many of the services offered could not be provided by private enterprise.

3. Austin's fares are set in general on the basis of a fixed cost plus a per seat-mile charge. However, costs vary from route to route as a function of several factors including the price of fuel, terminal charges, navigational costs and the type of aircraft used. To some extent also, fares reflect competition on particular routes. Joint fares are offered with Air Canada and Nordair, primarily through Thunder Bay and Timmins.

4. Unit toll freight rates are calculated in a similar manner to passenger fares while lower charter rates are available for large shipments.

5. Almost all routes are operated on a year-round basis although there is considerable seasonality in traffic patterns.

6. On average, unit toll revenues are 60% of total revenues.

7. Positioning charges should be retained in the regulated zone. They prevent outside charter carriers from skimming the top off the market, thereby jeopardizing local carriers with commitments to the region. Route protection should be retained for similar reasons.

8. Austin has stayed with a weight allowance for free baggage rather than moving to a piece allowance because of the low payload of many of its aircraft.

Mr. Deluce advised Commissioner Bourret that more than 90% of freight moves north. Although Austin Airways has considered publishing trilingual timetables, it has not done so yet and relies more on direct mailings and visits to the various communities it serves as a means of communication.

Barney Lamm, President, Nunasi Central Airlines

Mr. Lamm suggested that the route protection regulations should be altered to reduce confusion for operators and customers. He cited the example of a base with two operators, one of which has a Class 2 license, and suggested that in these circumstances protection should be waived. He felt that the positioning charge regulations are being abused and need to be examined. Finally, Mr. Lamm recommended that restrictions on the number and size of aircraft should be removed from licenses; specifically, weight groups A, B and C should be combined, as probably should groups D, E and F.

Harvey Friesen, President, Bearskin Lake Air Service Ltd.

Bearskin Lake operates Class 4 services from three main bases: Sioux Lookout, Thunder Bay and Big Trout Lake. In addition, it operates an extensive network of Class 3 services and some Class 2 ones. Since Mr. Friesen had not been notified of the hearing, he had no prepared presentation; instead, he responded to several questions from Ms. Burnham, Commission counsel, as follows:

1. The line between the regulated and liberalized zones is well positioned, at least in Ontario. It

is vital to retain regulation north of the line in order to maintain viable service; population densities are simply too low to support extensive competition.

2. The downward flexibility on fares instituted in the south is not really appropriate in the north.

3. Positioning charges should remain in effect, especially in the far north. In that area, considerable ground equipment and personnel are required to operate in the winter. Without positioning charges, operators from the south could come in in the summer with lower charges because they do not have to cover the costs of winter operations.

4. Route protection regulations are more debatable since they give carriers the opportunity to take advantage of monopoly markets.

MOOSONEE, ONTARIO, THURSDAY JULY 5

Rene Piche, Member of Provincial Parliament for Cochrane North

Mr. Piche started by describing just how large northern Ontario is. It is a vast region covering some 309 000 square miles of rugged and varied terrain in which approximately 780 000 people live and work. It thus represents 90% of the total area of the province but contains less than 10% of the population. The natural resources within the region have been the economic mainstays of northern Ontario and have contributed significantly to the value of Ontario's and Canada's exports. However, attempts are being made to expand the economic base of the north.

A key to economic diversification is further development of the transportation system. Progress has been made, but much remains to be done, particularly in the area of costs. Unless transportation costs are kept at reasonable levels, the ultimate cost of goods produced in the north makes them uncompetitive and the producers unprofitable. High transportation costs can also inhibit the creation of secondary industries, particularly in the area of tourism.

Development of tourism is especially important, but will require improvements in the transportation system in the far north, which can be defined as that part of the province without reliable all-weather ground access. By this definition, a significant part of northern Ontario can be called the far north since at present only two roads and one railway extend past the

51st parallel. Although less than half a percent of Ontario's population lives in the far north, there is a fair amount of activity in mining, forestry, tourism and trapping. But expansion of these activities is severely restricted by the cost of northern transport, in particular by the cost of air transport.

Mr. Piche used the example of the Marten Falls Indian Reserve at Ogoki Post to illustrate how high air fares and freight rates restrict economic development and severely reduce the quality of life in the area. Ogoki Post is an isolated community north of the 50th parallel. The nearest town served by roads and trains is Nakina, 108 air miles to the south; in turn, Nakina is 40 miles north of Geraldton which has bus and air connections to centres such as Thunder Bay. Trapping is a primary occupation of Ogoki's residents. On average, each trapper spends $2 700 every season on fuel whereas the same fuel would cost less than $1 200 if bought in Nakina. The difference results from an air freight rate of 37 cents per pound, which is charged on all goods brought into the community. Mr. Piche suggested that these costs were unacceptable, at least when charged on essential items such as food-stuffs.

Air fares are also high. A one-way trip between Ogoki and Nakina Air Service costs $79 per adult for the 108 miles. At Nakina, passengers can transfer to Austin Airways to fly to Thunder Bay at a cost of $120 per adult for 300 miles. The Marten Falls Indian Band believes that the need to transfer between the two airlines has resulted in higher fares, particularly in view of the high cost per mile between Ogoki and Nakina.

Mr. Piche had several suggestions for alleviating the problems experienced by residents of the remote communities:

1. Consideration should be given to government help, although not in the form of massive subsidies.

2. The services being provided should be examined carefully to determine whether existing routes are being adequately serviced and whether the most cost effective aircraft are being used.

3. Government should help to develop local industries to reduce dependence on goods which have to be freighted in and to provide meaningful employment.

4. The infrastructure supporting air services should be improved. Until this is done, the industry should not be deregulated.

5. A joint federal/provincial organization should be created to monitor the situation in the far north.

In conclusion, Mr. Piche pointed out that the Ontario Ministry of Transportation and Communications (MTC) has recently advertised for a Northern Transportation Coordinator. He felt that this was a progressive step which should help to solve some of the transportation problems faced by the region.

During cross-examination by Ms. Burnham, counsel for the Commission, Mr. Piche made the following points:

1. Although in general he favoured deregulation and competition, he felt that any move in this direction in the north should be taken slowly. Gradual introduction of additional competition could be beneficial.

2. The line between the regulated and liberalized zone is well positioned for the moment.

3. NorOntair is providing an excellent service to the communities it serves, but does not operate in the far north. Its routes should be expanded into that area.

4. He was not aware of any discount fares being offered in the north.

5. The Northern Transportation Coordinator should work closely with the CTC in monitoring air transport in the north.

Mr. Piche advised Commissioner Chapman that most of the communities served by norOntair would not have air service were it not for that carrier. Commissioner Bourret pointed out that in its timetable, Austin Airways advertizes senior citizen, youth, standby and return excursion fares on most of its flights.

In response to Chairman Orange, Mr. Piche suggested that costs should be equalized in the north at those pertaining to places such as Kapuskasing and Cochrane.

Mr. Piche ended his appearance at the hearing by suggesting that Toronto Island Airport is very important to the well-being of the people of northern Ontario since it provides much more rapid and much cheaper access to downtown Toronto than does Pearson International Airport. The federal government should therefore upgrade access by building a bridge or tunnel to the mainland.

Yvon Desroches, Marketing Representative, Rog-Air Ltd.

Mr. Desroches summarized the airport facilities and services available in Ontario north of the 50th parallel:

1. Twenty-seven remote communities are directly dependent on air transportation for their necessities. Seventeen have airports developed and maintained by MTC while the remaining ten are accessible only by float-equipped aircraft.

2. Three communities - Moosonee, Red Lake and Pickle Lake - are served by road or rail as well as by air.

3. With the exception of Red Lake and Pickle Lake, which have regular passenger service by norOntair, all of these communities are served by only one main carrier, Austin Airways, which offers unit toll service using aircraft in weight groups B to E.

4. Additional unit toll and charter services in smaller aircraft are provided by Bearskin Lake Air Service, Rog-Air and a number of small carriers using float-equipped aircraft.

Mr. Desroches suggested that Austin Airways has been able to maintain this situation by successfully opposing all applications by other carriers for additional services. For example, his own company had tried for three years to add Group D aircraft to its existing Class 4 charter service; despite support from practically all businessmen in the remote communities, the CTC had turned down the application on the basis of just one letter from Austin Airways. Mr. Desroches wondered if the CTC is really receptive to the needs of residents of the remote communities.

Mr. Desroches went on to suggest that, if there is one place in Canada which desperately needs to receive the benefits of deregulation, it is the north. The CTC has allowed northern Ontario to be monopolized by one carrier, with the costs being passed on to local residents. The present service is also inadequate. This applies particularly for aircraft in Group D since Austin has no incentive to promote these because it operates Group E aircraft. Route protection and base protection have also been detrimental. The overall result is that passengers have been stranded for up to three days at a time, important freight has been delayed, and the monopoly carrier has been able to dictate mail rates.

A more vigorous surveillance program would be useful, for example to deal with situations where a licensed carrier may purchase larger aircraft, then abandon service to small communities because of the higher costs, and yet be able to block applications from lower cost operators. In such circumstances, new entrants or other licensed carriers should be encouraged to apply to operate such services without opposition from the previous carrier.

Finally, Mr. Desroches pointed out that some of the high costs in the north were the result of charter carriers being forced to charge positioning charges. In particular, this is true of the service between Ogoki and Nakina.

Mr. Desroches responded to questions from Ms. Burnham, Commission counsel, as follows:

1. The Positioning Charge Regulations provide some protection but also result in a loss of business because of the high costs they impose.

2. Weight groups A, B and C should be combined and D should be included as well.

3. Any reduction in cost, such as through elimination of the fuel tax, would be beneficial.

4. Increased competition on routes to some of the small communities may result in some streamlining of services by existing carriers but will not damage service overall.

E.T. Nobbs, Counsel, Austin Airways Ltd.

Mr. Nobbs pointed out that several of the issues reviewed in Moosonee had been dealt with at the hearing in Sioux Lookout. In particular, the availability of discount fares, the contribution of air freight costs to the total cost of goods in remote communities and the extent of competition between Austin Airways and other unit toll carriers had been discussed. Mr. Nobbs also advised the hearing that Austin Airways had served Ogoki Post for many years; it had withdrawn in favour of Nakina Air because the community wanted to be served by float plane rather than by fixed-wing aircraft to the more remote airstrip. Nakina Air operates a scheduled service.

POSTE-DE-LA-BALEINE, QUEBEC, TUESDAY JULY 24

Robbie Tookalook, Mayor, Village of Poste-de-la-Baleine

Mr. Tookalook testified on behalf of three villages: Inukjuak, Povungnituk and Kuujjuarapik (Poste-de-la-Baleine). He first read a telegram from the mayor of Inukjuak, a community of 800 people located on the coast of Hudson Bay north of Poste-de-la-Baleine. It relies heavily on air transportation for travel, food and mail, including access to hospitals. The telegram contained several comments from local residents, including the following:

1. Passenger and freight costs are much higher than in other parts of Canada and elsewhere in the world. The high costs of freight make purchase of heavy items such as furniture and ski-doos very difficult.

2. The free baggage allowance is inadequate, particularly for groups such as families.

3. Any excess baggage which cannot be transported on a flight with the passenger should be forwarded at a lower rate on the next available flight.

4. Overnight stays at places such as Poste-de-la-Baleine are very expensive. Airline schedules should be better coordinated to minimize the need for overnighting.

5. Mail service is very slow to points north of Poste-de-la-Baleine.

6. Travel to hospitals south of Poste-de-la-Baleine is very tiring. No toilets are available at stops, no food is provided and the seats on the Twin Otters are uncomfortable.

7. Passengers are being forced to stay in Poste-de-la-Baleine for two or three days when flights depart without them.

Mr. Tookalook then read a letter received from Povungnituk in which a similar concern was expressed about connections at Poste-de-la-Baleine between Nordair and Air Inuit. The letter was critical of Air Inuit suggesting that it: does not keep passengers properly informed of flight items; does not deal directly with passengers affected by flight cancellations due to bad weather; has not introduced discounts for old age pensioners promised when it took over service from Austin

Airways; and does not handle freight fast enough, thus allowing fresh food to spoil. Concern was also expressed about the transfer of patients between their homes and hospitals:

1. Patients stay longer than necessary at hospitals in Montréal and Moose Factory because their tickets have not been made up. The hospitals should be informed of flight schedules.

2. Inuit patients have been left behind at Val-d'Or for no reason.

3. At times, Nordair leaves Montréal for the north with all seats taken by whites leaving behind Inuit patients. Nordair should give the patients top priority.

Finally, Mr. Tookalook testified on behalf of Poste-de-la-Baleine. His concerns included the following:

1. Local residents should not be allowed to bring beer in by air freight from the south through Nordair. Instead, beer should be sold only through local organizations such as the social club.

2. Residents of northern communities should be made aware of discount fares and the restrictions on such fares in order that they receive the same advantages as people living in southern Canada.

3. Nordair should employ Inuit people in their offices to improve communications with local residents.

4. When flights to Poste-de-la-Baleine have to return to Montréal because of bad weather, Nordair should take better care of its passengers. At present, passengers are simply dropped at the airport although they may have no money for food or accommodation. This is particularly serious for older Inuit people going home from hospitals.

5. Navigational facilities at Poste-de-la-Baleine should be improved.

In reply to cross-examination by Ms. Burnham, counsel for the Commission, Mr. Tookalook explained that the principal problem with connections at Poste-de-la-Baleine was the need to make reservations at least 24 hours in advance of the flights north by Air Inuit.

Timothy Kitikshiniik, Vice-President, Hudson Bay's Hospital

Mr. Kitikshiniik expressed his concern about the cost to his hospital of having to pay for patients to stay in Poste-de-la-Baleine for a few nights because they cannot complete their journey home from hospitals in Montréal. He explained to Ms. Burnham that this happens primarily on Fridays because Air Inuit has no flights from then until Tuesday.

Panel Representing Nordair Ltd.

- Roland G. Lefrançois, Chairman
- Dominique Prinet, Vice-President, Marketing
- Paul Pelletier, Vice-President, Quebec Region and Arctic
- Moira Hudgin, Senior Manager, Tariffs and Regulatory Affairs

Mr. Lefrançois advised the hearing that Nordair would make its main presentation in Frobisher Bay. The purpose of appearing in Poste-de-la-Baleine was to introduce the Commission to the development of the airline's services in the north to give a background to its views on possible deregulation north of the 50th parallel in eastern Canada.

Mr. Lefrançois started by commenting on the high costs of air transportation in the north and expressed sympathy with the people living there. Everything is expensive in the north including the goods and services purchased by Nordair. Mr. Lefrançois pointed out, for example, that not only do passengers incur costs when an aircraft is unable to land at Poste-de-la-Baleine because of bad weather and is forced to return to Montréal but Nordair itself incurs heavy expenses. If the airline accepted Mayor Tookalook's suggestion earlier in the hearing, that it should reimburse the passengers, the additional costs would have to be recovered elsewhere in the system.

Nordair believes that deregulation should not be introduced north of the 50th parallel because of the fragile and vulnerable nature of the existing services. When these services were started by Nordair in the early fifties the question was whether there should be any scheduled services in the eastern Arctic and the northern parts of Quebec. Nordair quickly realized that the only ways to provide any reasonable frequency were to combine passengers, cargo and mail on one aircraft and to combine service to several communities on one route. The result is that all points in the airline's network are interdependent. If Nordair had to withdraw from one point for any reason, all the other points on its network would suffer.

Nordair has also been able to provide reasonable frequencies on certain routes by combining traffic from more than one important generating point. For example, there is not enough traffic between Ottawa and Frobisher Bay to justify a service, but there is if the flights originate in Montréal.

Mr. Lefrançois submitted for the record a brochure entitled "The Essential Integrity of the Northern Quebec Network" which describes how the network has developed over the years. He concluded by emphasizing that the CTC should retain control of licensing in the north and should continue to use the test of present and future public convenience and necessity in its deliberations.

Mr. Prinet outlined the tariff structure applying on Nordair's northern system:

1. A wide range of fares designed to encourage leisure traffic is offered. These include a weekend fare at a 40% discount for six-day weekends extending from Thursday to the following Tuesday. Some of these fares are available at such a deep discount or for such an extended period only in the north.

2. Senior citizens and child fares at one-third discounts, youth standby fares at 45% discounts and family plans at 25% discounts for accompanying family members are available at the same levels of discounts and under the same conditions as in Nordair's southern system. Some of the discounts and some of the associated travel conditions are better than those of other transcontinental and regional carriers, even in southern Canada.

3. Seat sales are offered. For example, in the fall of 1983, Nordair introduced a 50% off sale system-wide and then introduced a further seat sale at 60% to 70% off, depending on distance, to match a sale launched by Air Canada. The second seat sale was also applicable system-wide.

4. Promotional fares have also been introduced. These allow passengers a free limousine or car rental in southern Canada at points served by the airline and are available in Poste-de-la-Baleine.

5. A special senior citizens fare at a 65% discount is available for passengers prepared to meet certain conditions, such as reserving two weeks in advance.

6. Special commodity rates are offered for certain goods, particularly for those going south in an

attempt to balance the uni-directional flow of cargo northbound.

7. Through the initiative of Nordair and certain merchants in Val-d'Or, the Val-d'Or post office is used to distribute food and small packages to northern points at rates lower than those that any air carrier could offer economically.

Mr. Pelletier then responded to points raised earlier in the hearing:

1. The airline does not discriminate in any way among the passengers it carries.

2. The airline would like to make greater use of Inuktitut speaking personnel in locations such as Poste-de-la-Baleine. However, it is seriously constrained by the seniority provisions in its labour contracts. It has tried, so far unsuccessfully, to negotiate changes with its union.

3. Nordair will shortly be the first airline in the north to link all of its northern stations to its computerized reservation system thus allowing reservations to be confirmed within minutes.

During cross-examination, Mr. Tookalook stated that Nordair does not tell people about its discount fares. Mr. Prinet responded by describing the airline's procedures for advertising such fares but agreed that it was difficult to reach everybody in communities such as Poste-de-la-Baleine, which lack a local newspaper. Mr. Tookalook suggested that Nordair could overcome the problem by employing an Inuit worker in its local office, who could in turn speak on the local radio.

Panel Representing the James Bay Crees and Air Creebec

- William Grodinsky, Counsel, James Bay Crees
- Robert Kanatewat, Special Representative
- Crees of Quebec for James Bay Crees
- Albert Diamond, Founding Director, Air Creebec
- James Morrison, General Manager, Air Creebec

Mr. Kanatewat suggested that the situation and experience of Cree communities of northern Quebec would be extremely relevant to the hearing. He introduced a map showing the area covered by the James Bay and Northern Quebec Agreement, an agreement which was the result of a battle between the Crees and the governments regarding the construction of a massive

hydroelectric project in northern Quebec. The area covers about 410 000 square miles or almost two-thirds of the province. Of eight Cree communities in northern Quebec, five are located on the James Bay coast. Most of the communities are accessible only by air. Without efficient and reliable air transportation, most would suffer severe economic, social and cultural hardships. The total population of the Crees is over 9 000, most of whom live within the Cree communities except for periods during their education.

An important aspect of the James Bay and Northern Quebec Agreement was the provisions for negotiations on access roads and on economic and social projects, including air transportation, which would benefit the Crees. In addition, the federal government signed complementary letters of undertaking providing a commitment for the construction of airstrips. Since the early seventies, certain initiatives have been taken to improve the air services in the area:

1. Air Creebec has been established by the Crees to provide service along the coast and to the inland communities. The service is reliable, efficient and expanding, and is native run and operated. However, the improvements have been obtained at the cost of higher fares and rates.

2. Negotiations were started on airstrip improvement. After severe political pressure was exerted, funds were made available and a construction project is proceeding. This has also resulted in improvements to the quality of service offered by Air Creebec and should lower costs by allowing larger aircraft to be used.

3. Pressure is now being exerted to obtain funds for purchase of the more efficient, faster and smaller aircraft now being developed.

Mr. Kanatewat stated that deregulation is not acceptable in the north because of the size of the communities, safety considerations, and the size of the carriers. Government has an obligation to ensure that air transportation is provided promptly and at the lowest possible cost. Economic assistance should be provided through the construction of new airstrips and facilities and through subsidies for the purchase of new aircraft.

Mr. Diamond amplified the reasons for setting up Air Creebec. It was a concrete attempt to become involved in air transportation and a logical step in light of provisions in the James Bay and Northern Quebec Agreement. Mr. Morrison described start-up of the airline in July 1982 with two Twin Otters. Since then it has purchased a DC-3 and an HS-748 and discontinued use

of one of the Twin Otters. At present, the airline employs 23 people, eight of whom are Crees. Its main office is at Val-d'Or Airport from which it originates its scheduled service. Because of the small loads between many communities, service is offered on a multi-point basis rather than on a hub and spoke basis. Any competition from a second carrier on heavy sectors of the routes would be very damaging to the service that can be offered. Passengers account for 40% of traffic, mail for a further 40% and cargo for the balance.

Fuel represents 30% of total operating costs, with the average price paid having increased by 20% in the two years since start-up. In contrast, Air Creebec has only increased its fares 5% in the same period. So far the airline has not been in a position to offer a full range of special passenger fares. Recently, however, it filed special tariffs for selected communities with the Air Transport Committee and intends to extend its application as facilities to handle the HS-748 become more widely available. The new tariffs include a round-trip excursion fare without fences at a 20% discount and senior citizen, youth and child fares at discounts between 15 and 25%.

Air Creebec strongly supports the Minister of Transport's new air policy, in particular continued full regulation of commercial air services north of the 50th parallel; this recognizes the obvious differences between the north and the south. The airline also supports the continued requirement to provide justification for fare increases above 4% and the policy with respect to fare decreases. In particular, it approves of the provision allowing special fares to be offered over certain segments of a network rather than on all segments. Finally, Mr. Morrison presented several additional recommendations on behalf of the panel:

1. Air Transport Committee procedures should be streamlined to expedite consideration of applications.

2. The passenger air transportation tax should be eliminated north of the 50th parallel in Quebec. This is particularly important to Air Creebec as it substitutes large aircraft on its schedule thus forcing it to charge the tax for the first time. At present, the upgraded service is penalized through application of the tax since the HS-748 is over 12 500 lbs.

3. Landing and terminal fees and federal and provincial taxes on fuel should also be eliminated north of 50.

4. Steps should be taken to equalize costs throughout the north but not through an overall subsidy program.

5. Programs should be introduced to support the acquisition of more aircraft; a Dash 8 would cost almost twice as much per seat as a Twin Otter.

6. Airport facilities north of 50 should continue to be improved.

During cross-examination by Ms. Burnham, counsel for the Commission, Mr. Morrison suggested that Air Creebec construct its fares by using a fixed terminal charge plus a cost per mile, although he agreed that there were certain inconsistencies. The airline interlines with Nordair and makes use of its reservation system with good success. Its markets exhibit some seasonality with low points in the spring and fall. Mr. Morrison favoured retention of the existing Positioning Charge Regulations to prevent 'fly-by-night' operators from skimming the top off a market. Route protection is also important because of the thinness of the traffic on many routes. He felt that combining weight groups A, B, and C would be useful. Mr. Diamond indicated that the airline was not concerned about Val-d'Or and Matagami being south of the line separating the regulated and deregulated zones since almost no passengers travel between these two points.

KUUJJUAQ, QUEBEC, WEDNESDAY JULY 25

Panel Representing Nordair Ltd.

- Roland G. Lefrançois, Chairman
- Dominique Prinet, Vice-President, Marketing
- Paul Pelletier, Vice-President, Quebec Region and Arctic
- Moira Hudgin, Senior Manager, Tariffs and Regulatory Affairs

Mr. Lefrançois introduced a brief entitled "The Fort Chimo Service - An Integral Part of Nordair's Northern Network". He described how Nordair had started serving Kuujjuaq (Fort Chimo) in 1952 at a time when facilities were quite minimal and how the airline had gradually built its operations in the area since then. Mr. Lefrançois reiterated some of the points made at the previous day's hearing in Poste-de-la-Baleine, focussing particularly on the importance of serving several points with one flight in order to provide adequate frequency to each point. He pointed out that an additional benefit of serving several points on one flight is that service becomes available between

communities even when the demand between them is so low that it could not possibly support any service on its own.

The interdependence of most services in the north means that the CTC retain control over licenses and consider carefully the impact of existing services before issuing new licenses. The same interdependence forces Nordair to intervene in licence applications, if only to ensure that the full implications of changes are understood.

Finally, Mr. Lefrançois stated that Nordair interprets the Minister of Transport's new policy as not applying to places such as Val-d'Or and Matagami since these are points with services to and from the regulated area north of the 50th parallel.

Mr. Prinet summarized his evidence on tariffs from the hearing in Poste-de-la-Baleine, pointing out that Nordair makes all of the discount fares for passengers offered in the south available on a system-wide basis and in addition has certain special fares for northerners. It offers considerably more discounts on cargo to northerners including discounts for guaranteed volumes and special commodity rates, particularly for southbound cargo.

In response to cross-examination by Chairman Orange, Mr. Prinet explained that information is made available on discount fares by all possible means, including telex messages and bulletins to its station managers, news bulletins to the media, and advertisements in English, French and Inuktitut in northern newspapers. The Chairman suggested that, since the availability of discount fares could be viewed as a form of public service, perhaps CBC Radio could be persuaded to do more than read press releases once. Mr. Prinet agreed that this was worth pursuing.

During cross-examination by Commissioner Bourret, Mr. Lefrançois reiterated the concern that, if Nordair lost traffic by being underpriced on a particular route, it would have to try to increase revenues elsewhere by increasing passenger fares or cargo rates. In either case, it was likely to lose traffic with the result that it would have to reduce frequencies and would begin to lose the benefits gained from combining different types of traffic on one flight.

Ms. Hudgin advised the Chairman that Nordair pays $0.70 per litre for fuel in Kuujjuaq versus $0.37 in Montréal. The price in Kuujjuaq has increased much more rapidly than that in Montréal over the past four years.

George Koneak, Board of Directors, Municipality of Kuujjuaq

Mr. Koneak expressed concern about increases in the air fare between Montréal and Kuujjuaq. The fare is more expensive than it used to be and is difficult to afford for those paying their own way. Freight costs are also high and difficult to afford. Because of the lack of competition, local residents have no choice but to accept fare or rate increases when they occur. Mr. Koneak suggested that both Nordair and Air Inuit should give more consideration to the wishes of the local people since these are the people they serve.

Mr. Koneak was also concerned about the problems faced by Inuit passengers who understand neither English nor French. He suggested that Nordair should employ someone to look after such passengers as had been done in the past.

Mr. Koneak advised Ms. Burnham, counsel for the Commission, that he knew of Nordair's special weekend fare and had learnt of it through discussions with other people. He had not seen any advertisements.

Peter Adams, Deputy Mayor, Municipality of Kuujjuaq

Mr. Adams read a letter from the municipality into the record, the main points of which were as follows:

1. Since all travel in and out of the community is by air and since the bulk of food-stuffs, materials and supplies coming into the community is transported by air, the high cost of air transportation is felt by almost everyone. It particularly affects permanent residents since almost none receive any assistance in paying for travel cargo expenses.

2. Information on the hearing was received at the last minute and in English and French only, whereas the language of the majority of the permanent residents is Inuktituk. This penalizes the people most affected by the high cost of air transportation.

3. On the whole, Nordair provides an excellent service. However, the cost of a trip between Kuujjuaq and Montréal is at least three times that of an equivalent trip in southern Canada.

4. Although Nordair does offer certain discount fares, the "preferred booking" rate, which is available to individuals who do not qualify for other special

fares is almost impossible to obtain since the available seats are generally booked by various organizations and non-residents. Some mechanism should be introduced to ensure that ordinary residents of the community can benefit from the rate.

5. Reductions in passenger fares and cargo rates would stimulate traffic and benefit both the carriers and local residents.

John M. Bogie, President, Air Schefferville and Laurentian Air Services

Laurentian Air Services used to be a licensed air carrier but has transferred its licenses to Air Schefferville which it owns. The main source of income in Schefferville, the iron ore mine, closed permanently two years ago with the result that the population has declined from 5 000 to 1 200, of whom 90% are Amerindiens. Except for a once a week rail service, the community is entirely dependent on air transport for access to the outside world. Since the mine closed, traffic has declined tremendously forcing Air Schefferville to sell its Twin Otter and switch to an 11-seat Queen Air for its scheduled service.

Mr. Bogie expressed several concerns and made several comments:

1. In 1981, Transport Canada forced Laurentian Air Services to build a hangar in Schefferville at a final cost of $200 000 for a prefab hangar that would have cost $45 000 in the Ottawa area.

2. The charter market has been greatly reduced by new licensees and the economic situation. As a result, it cannot help to support the scheduled service; Air Schefferville has applied through Quebecair for some form of subsidy in addition to that already being received.

3. No shows are a serious problem, particularly when an extra section is scheduled because of heavy reservations only to have both sections run at less than 50% capacity.

4. Mail and freight account for less than 6% of total revenues because of competition from the rail service.

5. In remote areas such as Schefferville, only one carrier should be licensed since the carrier needs

all the revenues that can be generated to support the operation and to keep tariffs at reasonable levels.

6. Transport Canada does not have the trained and experienced personnel necessary to monitor carriers on a consistent basis throughout the country. Since the beginning of 1983, interference by Transport Canada has cost Air Schefferville $20 000 for actions which have subsequently proved to be unnecessary.

7. Negotiated fares should be allowed for volume users willing to guarantee use while special promotional fares should be allowed in conjunction with the regional carrier.

8. Air Schefferville's operation is highly seasonal with the peak in July through September. The peak in late August and early September is so great that the airline cannot handle it and Quebecair operates instead.

9. Considerable competition is being received from chisel charters, particularly in the single-engine market. Route protection and the Positioning Charge Regulations have provided little protection as they have been poorly policed.

Mr. Bogie advised Ms. Burnham, Commission counsel, that Air Schefferville does not have a unit toll license but operates unit toll services between Schefferville and Wabush/Labrador City under an agreement with Quebecair. It is faced with competition from three carriers with Class 4 charter licenses while Conifair has recently been awarded a Class 3 unit toll license. Mr. Bogie confirmed that in his opinion only one carrier should be licensed at a place such as Schefferville, whether for scheduled or charter service. To prevent abuse of the resulting monopoly situation, monitoring would be required by the CTC. Both route protection and positioning charges should be retained. It would also be a positive step to combine weight groups A, B and C into one group.

Michel Lemire, Businessman

Since 1979, Mr. Lemire has done business with Nordair while running his own restaurant. He expressed satisfaction with both the passenger and cargo service offered by the airline but was concerned about the high costs. He advised Ms. Burnham that he was aware of Nordair's discount fares but pointed out that it was still very expensive for a family to travel. To a greater

extent than in the past, local residents are responsible for their own fares. He believed that competition north of the 55th parallel would be beneficial for a couple of years but not in the longer term because 8 000 people cannot support more than one carrier. Mr. Lemire also suggested that Nordair should print more literature in Inuktitut.

Panel Representing Air Inuit and Makivik Corporation:

- George Simon, Vice-President, Operations, Air Inuit
- Mark R. Gordon, First Vice-President, Makivik Corporation
- Rudy Ellis, Senior Comptroller, Makivik Corporation

The Makivik Corporation was formed in the middle seventies to manage the funds received by the Inuit people as compensation for past developments in northern Quebec as part of the James Bay Agreement. It decided to set up Air Inuit both as a good investment and as a means of gaining control of the air service offered in the region. Previous airlines had offered unreliable and unsafe service. In addition to Air Inuit, the Makivik Corporation has developed other subsidiaries in areas such as construction and maintenance.

Mr. Gordon explained how Makivik operates. For example, all the Inuit of northern Quebec are members with each village electing one person to the board. Communication between individual members and the management sections of Makivik and Air Inuit are well established, partly as a result of the publication "Taqralik" which is distributed free to every household in northern Quebec.

Air Inuit started operations in July 1978 with two Twin Otters and now operates seven Twin Otters, one HS-748, one G-1 and one DC-3; it employs about 100 people. For the first five years it operated at a loss, but it is now profitable. Until recently, no discounts were offered since the airline was intent on reducing its debt load. Now, however, special rates are being introduced gradually.

The quality of airstrips in the area has been very poor. After much pressure, the federal and provincial governments agreed to provide funds to upgrade all of them by 1990. However, costs are higher than anticipated while a lack of cooperation between the two levels of government has resulted in delays so that the target date is not likely to be achieved. In turn, this will delay the introduction of larger, more efficient aircraft.

Mr. Gordon concluded by suggesting that the traffic in the region can only support one carrier.

Mr. Simon then described Air Inuit's current operations. It serves 17 communities on a scheduled basis using a linear system of operation. The facilities at many of these locations are very limited with airstrips averaging between 800 and 1 200 feet in length and 25 to 50 feet in width. The only way to operate at night is by using battery powered lights or lights from ski-doos or trucks. Navigational and weather reporting facilities are also minimal. Air Inuit has an agent in each community who is responsible for reservations which he/she transmits to Kuujjuaq by telephone. The airline is in the process of arranging for a computer-based reservations system, although terminals will be installed only in Kuujjuaq and Poste-de-la-Baleine.

Mr. Ellis described Air Inuit's fare structure as consisting of a terminal charge plus a rate per mile flown, thus ensuring that the overall fare per mile declines as the distance increases. However, on the Hudson Bay coast it has adopted Austin Airways' structure, which involves adding fares for each sector flown and which therefore does not result in a declining rate as distance increases. Since 1978, Air Inuit has increased its scheduled fares by approximately 94%. In contrast, fuel has increased by approximately 150%. It represents about 70% of direct operating costs and 30% of fully allocated costs.

Most costs are very high. If fuel taxes were eliminated, fares could probably be reduced by 2.5 cents per mile. For example, a hangar in Kuujjuaq cost $700 000 instead of the $250 000 it would have cost in the south. The airline has also had to build a staff house in Kuujjuaq, something that is not necessary in the south.

Mr. Simon concluded with a few further points:

1. Air Inuit has no unit toll competition.

2. Its operations have some seasonality, with charters peaking in the late summer to handle traffic to fishing camps and scheduled traffic having peaks created by particular construction projects.

3. More and more use is being made of mail to ship food-stuffs which was previously moved by sea. This is causing a requirement for better facilities to handle perishables.

The panel members responded as follows to points raised by Ms. Burnham, Commission counsel:

1. The fare charged between Kuujjuaq and Nain is lower than normal for various reasons. The airline is in the process of reassessing the fare partly in response to comments from its members.

2. Air Inuit would like to extend its fare discount program, but this is not likely to be possible until greater use can be made of the HS-748.

3. Unit toll passenger and cargo revenues are 18% and 10% respectively of total revenues. Mail and charter account for the balance.

4. The Positioning Charge Regulations are not doing any good at present because they are not being enforced; they should be done away with.

5. On the other hand, the route protection regulations are valuable.

6. There is merit in combining weight groups A and B.

7. The license application process should be simplified, particularly when an airline like Air Inuit is applying to serve a community with no current air service.

8. Air Inuit tries to employ Inuit people wherever possible; at present, 25% of its employees are Inuits. However, it has great difficulty competing with the salaries offered by government agencies.

Roland G. Lefrançois, Chairman, Nordair Ltd.

Mr. Lefrançois returned to the stand to respond to points made earlier in the hearing. In particular, he referred to special rates offered by Nordair over the years, which have helped the economic development of the area.

FROBISHER BAY, NORTHWEST TERRITORIES, THURSDAY JULY 26

Bryan R. Pearson, Mayor, Frobisher Bay

Mr. Pearson started by discussing the high costs incurred in any operation in the north but suggested that $800 for a round trip between Montréal and Frobisher Bay was indeed a large amount of money when a round trip between Montréal and London could be purchased for only $600. However, few of the people living in the north actually pay the fare themselves.

The greatest factor contributing to the high cost of transportation is the uni-directional nature of cargo. If government had been more successful in developing the economy of

the north, transportation costs would be lower. For example, if the tourism infrastructure were improved, many more tourists could be attracted and transportation costs reduced.

Mr. Pearson urged the CTC to grant another airline access to Baffin Island from southern Canada and expressed disappointment that the Commission had recently turned down an application by First Air to fly between Ottawa and Frobisher Bay. He believed that the resulting competition would be healthy by giving people an alternative and giving them job opportunities just as competition between the railways had been healthy in the early part of this century. Mr. Pearson in his own business ships in large quantities of goods by sea but would prefer to fly them in if the freight cost were reasonable.

Mr. Pearson advised Ms. Burnham, counsel for the Commission, that he thought that competition would result in a reduction in freight rates and in a reduction in the cost of food because basic commodities are cheaper in Ontario, particularly in the Ottawa area, than in the Montréal area. Although Nordair provides terrific service, frequencies are unnecessarily high; it could probably reduce costs by reducing frequencies and using larger, more efficient aircraft. Freight costs account for more than half of the retail cost of $3.19 for a quart of milk.

Mr. Pearson told Commissioner Bourret that he had long advocated the development of a fishing industry to exploit the fisheries of the Davis Strait between Canada and Greenland, with the products being shipped south by air. This would reduce the imbalances in cargo flows at least in August, September and October.

Panel Representing Nordair Ltd.

- Roland G. Lefrançois, Chairman
- Jean E. Douville, President and Chief Executive Officer
- Dominique Prinet, Vice-President, Marketing
- Paul Pelletier, Vice-President, Quebec Region and Arctic
- Moira Hudgin, Senior Manager, Tariffs and Regulatory Affairs

Mr. Douville started by pointing out that he was already on record as opposing the wholesale and unquestioned importation of U.S. style deregulation into Canada. Although liberalization may well benefit carriers and travellers in the south, the total absence of significant economic activity north of the 50th parallel combined with the area's extremely sparse population means that none of the factors which prompted deregulation in the United States are present.

Mr. Douville pointed out that during the 37 years since Nordair started pioneering air transport services in the north, it has made a profit in all but two years without the benefit of subsidies. During this time, it has initiated the development of the specialized equipment and facilities needed for the area and has contributed to the economic growth of the communities which it serves. He then summarized the way in which Nordair had developed its services over the years emphasizing, as had Mr. Lefrançois in Poste-de-la-Baleine and Kuujjuaq, the importance of combining cargo, passengers and mail on one flight and of combining service to several communities on one flight. If competition is allowed on one important link or for one component of the traffic on several links, the delicate equilibrium of product mix and flight frequency can be destroyed. As a result, deregulation would likely result in higher rates and lower service levels in the north.

Mr. Douville pointed out that, despite its virtual monopoly position, Nordair offers promotion and incentive programs to both passengers and freight shippers, as described by Mr. Prinet at Poste-de-la-Baleine. Some of these programs are available only within and to and from the north.

Mr. Douville concluded by describing his airline's financial contribution to the communities which it serves. Running the Frobisher Bay station alone injects $1 million per year into the community even though this figure excludes fuel and communication costs and the support provided to community activities. Mr. Pelletier added that the airline supports many associations, such as hockey organizations and the girl guides, and many community activities, such as Canada Day celebrations. The support is generally provided in the form of reduced rates or even free transportation.

Mr. Lefrançois responded to points made earlier in the hearing by Mayor Pearson. In particular, he noted that Nordair is faced with some competition from Northwest Territorial Airways. But additional competition should be allowed only after careful evaluation of the implications by the CTC. In the middle seventies, Nordair had tried to do as Mayor Pearson suggested: introduce a larger aircraft to improve operating efficiency. However, it did not prove possible to use the DC-8-60 between Montréal and Frobisher Bay, largely because of the time that would have been lost in converting the aircraft from the combined passenger-cargo layout necessary for that service to an all-passenger layout for the transatlantic services that had to be flown to achieve the annual utilization of 3 000 hours necessary to make the aircraft profitable. The alternative of operating the aircraft exclusively between Montréal and Frobisher Bay was also not possible as there was insufficient traffic to support the service even if all of the sea-lift cargo had been attracted.

Mr. Pelletier advised Ronald Pumphrey that Nordair would like to employ Inuit people as stewardesses and as station personnel in Frobisher Bay and Montréal but was very much constrained by the bumping provisions of the seniority system built into its union contract. It hoped to negotiate a more flexible arrangement for its next contract. Mr. Lefrançois pointed out that the airline has employed Inuit personnel from time to time but has found it difficult to retain them.

In response to questions from Ms. Burnham for the Commission, Mr. Prinet explained that Nordair does not use a fare formula in the north although it does use one in the south. Fares in the north have evolved over time as the services available have changed from charters to Class 3 scheduled operations and then to Class 2 operations. With the introduction of the B737, Nordair has attempted to rationalize its fares in the north and has succeeded to the point that the fare structure is now fairly consistent. Mr. Prinet suggested that there is a strong relationship between northern fares and rates and northern costs, with the fares and rates tending to be higher than in the south because of higher costs. However, despite extensive questioning by Ms. Burnham, the panel was unable to be more specific about the relationship between fares and costs or about the differences in costs between the north and south. Mr. Douville stated that the profitability of individual routes was determined normally by load factors.

Mr. Prinet explained that no capacity restrictions apply on Nordair's discount fares except for B Class fares and seat sales. The airline allocates approximately 20% of its seats to these deep discount fares. On an aircraft with 30 seats, this means five or six seats. At certain times of the year, such as Christmas and certain breaks in the school year, demand exceeds capacity. However, at other times, the airline offers more seats than are needed. Between Montréal and Frobisher Bay, approximately 18% of passengers use the capacity-controlled fares, while the average for the north is probably close to 20%.

The panel responded to further questions as follows:

1. The only airport in the north used by Nordair which has serious deficiencies is that of Poste-de-la-Baleine.

2. Revenues on Nordair's northern service are split about 50-50 between freight and passengers.

3. Nordair does not control the editorial or advertising content of its Air Mag magazine as it is produced by an independent publisher. This explains the recent lack of Inuit content. Mr. Douville agreed that the airline should look into the possibility of publishing his message in

the front of the magazine in Inuktitut as well as in English and French.

Ronald J. Pumphrey, Private Citizen

Mr. Pumphrey suggested that the high cost of living in the north results from two factors: cold temperatures and high transportation costs. He felt that passenger fares are higher than they should be since they are double what they would be in southern Canada for a similar distance although costs can hardly be double. Government should become involved to reduce air transportation costs. In addition, some competition should be allowed.

Mr. Pumphrey again raised the issue of the lack of Inuit people employed by Nordair. This is a particular concern during medical evacuations, especially of older unilingual Inuit. The Canadian government should step in to solve the problem which Nordair has with its union.

Thomas H. Butters, Minister of Government Services, Government of the Northwest Territories, assisted by Norman G. Phillpot

Mr. Butters started by giving a brief overview of the northern economy. Of the 30 000 people of working age in the Northwest Territories, 16 000 were employed in December 1983, 44% in the public sector. Employees in the mining, oil and gas sector and the public sector have the highest average earnings and also receive many benefits, such as vacation travel assistance. In the remainder of the private sector such benefits are not offered. Unemployment is concentrated in the smaller, more remote communities where many people have neither the opportunity nor the skill to participate in the wage economy.

Costs in the north are very high. Mr. Butters introduced price indices showing for example that residents of Spence Bay experience costs that are more than double those experienced by Edmonton citizens. However, several stabilizers are built into the economy to lessen the burden on residents with little cash income, including a public housing program and universal health care.

Mr. Butters gave several reasons for high airline operating costs in the north:

a) the uni-directional nature of cargo which means that the saleable portion of a round-trip flight may amount to only 67% of capacity;

b) the high costs of fuel;

c) the high costs to establish agencies in small communities; and

d) flight diversions and cancellations due to bad weather.

He pointed out, however, that a major reason for high fares was the use by some airlines of the sum of sector fares as the basis for calculating the total fare for a through journey. A switch to this type of pricing over the past decade has contributed significantly to rate increases.

The Arctic Air Facilities Policy has contributed significantly to the improvement in the efficiency of the northern airline industry. Unfortunately, funding has not been adequate to upgrade all the airstrips in the Northwest Territories with the result that 11 do not meet the minimum standards necessary to allow the carriers to provide safe, regular and reliable air service. The government of the Northwest Territories is providing an indirect subsidy to the air carriers by supplying fuel at a cost which does not include provisions for the cost of capital, depreciation or profit. The federal government is also providing an indirect subsidy by not assessing full user fees at northern airports. However, direct subsidies to the transportation system in the south are much more substantial.

The Government of the Northwest Territories considers the transportation infrastructure of the north to be very fragile and therefore endorses the Minister of Transport's decision to exclude the area from the experiment with regulatory reform.

Mr. Butters concluded his presentation with several recommendations:

1. The Air Transport Committee should review its procedures with a view to lessening airline statistical reporting requirements.

2. The Committee should establish an actual presence in the north and appoint a northern resident to the CTC.

3. The Committee should use its influence to reduce the impact of sector fares during the review of any application for a rate increase.

4. A federal user subsidy program should be established to eliminate the disproportionate difference in transportation costs between the north and the south.

5. The Arctic Air Facilities Policy should be continued to ensure safe airside facilities and to ensure that all communities in the Northwest Territories share in the benefit associated with airports of minimum standards.

6. The Arctic Air Facilities Policy should be enhanced to accommodate improved navigation and approach aids in order to reduce the frequency of aborted flights and thereby to reduce carrier costs.

7. A location in the Northwest Territories such as Pangnirtung should be chosen as a test location for the microwave landing system.

8. The request by the Northern Air Transport Association to Transport Canada for a preliminary study into the cost of providing a Loran 'C' chain of transmitters in northern Canada for navigation purposes should be given very serious consideration.

9. The Transport Canada moratorium on full cost recovery in applying the user pay principle should be extended to all airports in the Northwest Territories and should be made permanent.

10. The development of fixed airline base facilities at airports should be encouraged by relaxing the rules with respect to long-term title for improvements on lands owned by Transport Canada.

11. The passenger tax should be assessed against northern travellers.

12. Revenue Canada should consider reducing the amount of taxes assessed on fuel consumed in the north in providing transportation services. The territorial government would consider similar reductions in taxes if Revenue Canada looked favourably on this recommendation.

During cross-examination by Ms. Burnham, Commission counsel, Mr. Butters and Mr. Phillpot made the following points:

1. The Government of the Northwest Territories believes that north-south routes should not be included in the deregulation experiment.

2. Continuous monitoring of northern services by the federal government would be useful.

Dennis Patterson, Member of Legislative Assembly for Frobisher Bay

Mr. Patterson welcomed the Commission members to this constituency and wondered if recent reductions in freight rates to small communities north of Frobisher Bay by Nordair were related to the hearing. His constituents are concerned about the possibility of being affected by deregulation in the south, for example by price wars there leading to the need for higher northern fares to compensate for lost revenue. However, they are also aware of the benefits of limited competition and would like to see some competition introduced.

The fundamental concern of the people of Frobisher Bay is with the high cost of living and in particular the high cost of air transportation. Although Mr. Patterson praised Nordair as being a good corporate citizen, he suggested that the fares charged are much too high. It does not appear fair that, in order to remain competitive in the south, airlines can use the Air Canada fare formula to calculate fares which may therefore not necessarily fully reflect the cost of the service, whereas airlines in the north insist on charging the full cost of providing a service. Mr. Patterson pointed out that he was not advocating that the airlines should subsidize northern communities; rather, northerners want to be sure that they are being treated fairly.

Mr. Patterson wondered if the role of the Air Transport Committee may have to change. If northern residents must pay fares which cover the full costs of providing service, then the management decisions which set these costs in the first place must be scrutinized carefully.

Mr. Patterson then presented a comparison of fares, distances and fares per passenger-kilometre on a variety of routes showing that Nordair charges from 49 to 87% more per passenger-kilometre in the north than on routes of comparable length in the south. He pointed out that, in testimony at another hearing, Mr. Prinet of Nordair had asserted that the differences in fares between the north and the south are solely the result of higher costs in the north. Although Nordair undoubtedly has higher costs in the north, Mr. Patterson could not understand how they could account for the differences in fares. Even on northern runs, many of the costs are incurred in the south because the airline does not base maintenance people, engineers and air crews in the north, does not have hangar facilities or carry out maintenance there, does not need to maintain an inventory of spare parts there, and can buy some of its fuel in Montréal. Mr. Patterson wondered how Pacific Western Airlines, which uses the same type of aircraft and which flies into the same sort of remote northern communities could charge

less than Nordair on routes of similar length, citing examples in which the fares were between 17% and 50% lower.

Mr. Patterson urged the CTC to take another look at the application by First Air to provide service between Ottawa and Frobisher Bay. To allow limited competition for the monopoly carriers would be a healthy development; it may help to improve service and could result in reduced fares. He also urged the CTC to force Nordair to justify some of its statements on the reasons for higher fares in the north.

Monica A. Connolly, President and Managing Editor, Frobisher Press Ltd.

Ms. Connolly read into the record a lengthy editorial she had written for her paper in May. It discussed the new air policy just announced by the Minister of Transport and made several suggestions:

1. The new policy, in a modified form, should apply in the north as well as the south. Some competition should be allowed as this stimulates creativity and is likely to result in some price cuts.

2. Although there is validity to the airline arguments that costs in the north are high, that productivity levels are low and that competition could be damaging by skimming the top off certain markets, evidence from the United States shows that airlines can survive deregulation.

3. Although most of the benefits of deregulation would be in market growth and lower prices, it would also give the airlines the opportunity to offer northern communities low-cost access to out-of-the-way destinations, for example by picking up passengers on charter flights between western Canada and Europe.

Ms. Connolly continued by describing the difficulties and uncertainties associated with the sea-lift. Air freight is much preferable but far too expensive for many staple commodities. She suggested that residents of the north are entitled to be able to live like other Canadians. To achieve this probably requires limited competition plus some type of equalization subsidy.

Robert P. Engle, Chairman and President,
Northwest Territorial Airways

Mr. Engle reviewed the development of his airline's services to the eastern Arctic from a start with charter services using single-engine aircraft through the use of DC-3's on skis in the mid-sixties to the introduction of scheduled services in January 1980. These transterritorial services were inaugurated with four-engine turbo-prop Lockheed Electras and greatly reduced the time to travel between the eastern and western Arctic. In June 1984, a service was started between Winnipeg and Frobisher Bay while service along the Arctic coast was extended east from Cambridge Bay to Hall Beach, at which point it connects with Nordair's service to Montréal via Frobisher Bay.

Traditionally, NWT Air operated with only one class of passenger fare. Now, however, a full range of excursion fares is offered with discounts varying from 25 to 35%. In June of this year, seat sales were introduced at a 50% discount on all of its north-south services, which originate at Winnipeg. However, the airline judged that it could not afford to offer such sales on a system-wide basis. In addition, various rates are offered for different commodities.

Mr. Engle suggested several criteria that should be used to judge markets which may warrant some liberalization. In particular, alternative modes of transportation, other than barge, should be available, while the existing air service should consist of at least two round trips each day.

Although NWT Air does not feel that a general subsidy program is warranted in the north, the government of the Northwest Territories should consider providing aviation fuel facilities in the Kitikmeot area, while the federal government should consider eliminating the air transportation and fuel taxes and landing fees. Help in acquiring modern aircraft would also be a form of meaningful support. To acquire a DC-3 it costs around $10 000 per seat in contrast to about $166 000 per seat for a Dash 8 and similar figures for competing aircraft.

Mr. Engle advised Ms. Burnham, counsel for the Commission, that another criterion to evaluate whether a market would warrant liberalization was whether it was being served by state-of-the-art jet aircraft.

Panel Representing First Air

- John W. Crichton, Executive Vice-President
- Andrew Campbell, Vice-President, Arctic Services

Mr. Crichton pointed out that First Air is not a company but is a name used for public identification of all the scheduled services operated by Bradley Air Services. Bradley's operating history in the Arctic goes back to the construction of the Dew Line in 1954. In the late fifties and early sixties, charter services were extended into the High Arctic islands. During this period, the airline developed considerable expertise in operating in the far north, both in terms of the equipment used and in terms of the personnel involved. In 1978, First Air took over scheduled services from the bankruptcy trustee for Survair. Although it faced considerable problems, in particular mistrust by passengers and shippers alike because of the erratic nature of the service provided by Survair, First Air was able to upgrade the services, partly through the introduction of two HS-748 aircraft within 18 months. Mr. Crichton described the various stages of the upgrading and presented comparisons of the traffic carried between various communities in 1976 and 1984. Considerable changes have occurred as the public has made increasing use of the scheduled flights instead of charter ones. As a result, costs to the users have decreased.

In 1982, First Air partially extended its computerized reservations and inventory control system to cover its northern system and plans to complete the transition shortly.

In addition to the scheduled services, Bradley undertakes charter work, with medical evacuation flights being especially critical.

Mr. Crichton pointed out that significant challenges and problems are still encountered in providing a good scheduled service to the area including:

a) limitations in the airfields, particularly in terms of runway length;

b) inadequate navigation and approach facilities which result in weather-related delays and cancellations; and

c) the need to tie schedules to those of Nordair at Frobisher Bay and Hall Beach, which can restrict equipment utilization.

First Air offers a wide range of discount fares on a year-round basis within its northern system with discounts as high as 55%; none are capacity controlled. The fares are advertised in English and Inuktitut in the airport terminals and in the Frobisher Bay newspaper.

Mr. Crichton introduced a chart comparing air fare increases on southern routes, on north-south routes and on inter-Arctic routes. This showed that between 1980 and 1984, both the

north-south and the southern fares have increased by greater percentages than two of the three inter-Arctic fares listed.

Although agreeing with the general thrust of the new air transport policy, First Air recommended that there be a change in emphasis to require that those who seek protection from competition should have to justify the need for the protection.

PANGNIRTUNG, NORTHWEST TERRITORIES, FRIDAY JULY 27

Arthur Osborne, Secretary-Manager, Hamlet of Pangnirtung

The Hamlet of Pangnirtung wished to raise three points:

1. It supports the effects by the Government of the Northwest Territories to ensure that the Arctic Air Facilities Policy is continued and expanded.

2. The lack of security fencing for its runway is a problem although this may be resolved later in the year.

3. The existing runway needs to be extended and resurfaced or alternatively the entire airport facilities should be relocated.

Mr. Osborne explained to Chairman Orange that parts of the hamlet lie on either side of the runway thus making it a hazard. The runway is also not long enough to handle a fully-loaded HS-748, thus constraining the development of tourism.

Fred Coman, Businessman

Mr. Coman explained that he operates a business in Frobisher Bay but is building a home in Pangnirtung since his wife comes from the hamlet. He recounted the history of air service to Pangnirtung from float-plane operations in a single-engine Otter through Twin Otters operated by Nordair and then Survair and finally to the present day HS-748 operations of First Air. The communities in the area have really benefitted from the excellent job done by First Air. Not only has the service improved but employment has been created.

With regard to service to Frobisher Bay, Mr. Coman suggested that most business people have not benefitted from the new service offered by NWT Air to Yellowknife. Freight rates are nearly double those to Montréal and most suppliers are in Ontario and the Montréal area. Should the government decide to allow

another airline to compete with Nordair, it should choose a successful northern airline rather than one from the south.

Mr. Coman advised Chairman Orange that over the years there has been a steady shift away from sea-lift to the air mode. Far fewer people today bring in their year's supply of food by sea-lift than did so 20 years ago. Retail stores such as The Bay also fly in meats, vegetables and sundry items although they use sea-lift for bulk and canned goods. Mr. Coman suggested that a new service competing with Nordair between Frobisher Bay and Montréal but with slower aircraft and lower prices would certainly attract freight traffic, including some not being moved by air at present; he was less sure how many passengers would be attracted because, to many people like himself, time is also important.

David M.P. Guihan, Businessman

Mr. Guihan commended First Air for the good job they are doing. He had never seen a community the size of Pangnirtung with so many flights per week. However, he was gravely concerned about the hazard created by the fact that the runway splits the hamlet in half. In the winter, many of the aircraft take off or land at the same time as children are on their way to or from school. Children are so close to the runway that an incident such as a tire blow-out could cause a serious accident. Although he had been assured that security fencing was to be installed last year or, more recently, this year, it appears that installation may be delayed yet again. Mr. Guihan felt that this represented a quite unnecessary and irresponsible risk.

Mr. Guihan also suggested that the runway needed upgrading and lengthening or should be relocated.

He advised Commissioner Bourret that the hamlet has a population of just over 800. So far this season, it has received close to 200 tourists.

Jeffrey Peyton, Businessman

Mr. Peyton explained that he works at the local hotel and also as an agent and cargo handler for First Air. He suggested that lengthening the runway would be beneficial by allowing First Air to land with a full load of food-mail, that is 10 000 pounds instead of the 7 000 pounds to which they are limited at present. He confirmed the terrible condition of the airstrip; it is so bad that it had resulted in serious damage to his amphibious plane.

Mr. Peyton explained to Chairman Orange that "food-mail" is a term describing a government subsidized program whereby organizations, and possibly individuals, can order food from a store in Val-d'Or for air shipment at a mail rate which is much cheaper than normal freight rates. The program applies only to the High Arctic, that is places north of Frobisher Bay.

Rosie Okpik, Private Citizen

Ms. Okpik explained what it was like to be a parent with children at school in Frobisher Bay and not be able to afford to visit them. Many residents of Pangnirtung cannot afford the air fare as more are unemployed than working. She was grateful that the government pays the fare for a visit on graduation day but pointed out that only one parent is paid for.

Ms. Okpik suggested that the government has an obligation to help the Inuit people since it was the government that had destroyed the old way of life without providing the experience and education necessary to adapt to the new lifestyle. She went on to make several additional points:

1. First Air should provide full meals on flights to Frobisher Bay.

2. Somehow the price of fresh food should be reduced; it is too high to be afforded by people who are out of work.

3. Many Inuit wish to visit other communities but cannot afford to fly. If Nordair and First Air reduced their fares, they would attract many more passengers and perhaps make more money.

4. More Inuktitut-speaking personnel should be employed by the airlines to make it easier for the Inuit people to travel; the older Inuit find travel particularly confusing.

Lucy Magee, Acting Secretary-Manager, Council, Hamlet of Pangnirtung

Ms. Magee raised several concerns of her Council:

1. If airport funding is shifted from the federal to the territorial government, the possibility of having the runway extended within the next five years may disappear.

2. The Council tries very hard to keep people away from aircraft, but has been told that it cannot regulate the airstrip or pass any bylaws since it cannot override a federal program.

3. Because of the priority given to food-mail and the capacity restrictions imposed by the short runway at Pangnirtung, first-class mail is often left behind in Frobisher Bay.

Panel Representing First Air

- John W. Crichton, Executive Vice-President
- Andrew Campbell, Vice-President, Arctic Services

Mr. Crichton confirmed the problems created by the restricted length of the runway at Pangnirtung. First Air cannot economically schedule flights from Frobisher Bay through Pangnirtung to points further north. However, it does not penalize local residents because of this since it charges passengers travelling between Pangnirtung and more northerly points the fare for a direct flight even though it has to fly them via Frobisher Bay. Mr. Crichton pointed out that his airline does provide food service on many of its flights but not on those between Pangnirtung and Frobisher Bay since they last only 50 minutes and normally take place outside meal hours. To help with the cost of air travel, First Air introduced a standby fare of 50% of the regular fare about five years ago.

Mr. Crichton continued by highlighting points made in his airline's submission:

1. On monopoly routes, the regulations surrounding discount fares could be relaxed considerably since they affect only the carrier itself. The same applies to promotional programs, standby fares and cargo pricing.

2. Fare increases should not be limited to artifical constraints such as the 'six-five-four' program; instead, they should be related to actual cost increases.

3. First Air is prepared to provide seats at discount fares to passengers who must travel for compassionate reasons and to allow them to bypass the fences. But some method of verification must be set up.

4. Thirty-five to 40% of passengers on the airline's northern services travel on discount fares. The

percentage is expected to increase moderately over the next few years. The average discount is about 40% for passengers and about 35% for cargo.

5. Passenger traffic has a high peak in June, July and August.

6. Cargo traffic is largely uni-directional. Although First Air has been able to stimulate some southbound cargo, it has only done so at very low rates.

7. Fares and rates are established on the basis of costs using the distance taper principle.

8. Well-managed unit toll operators in the north can compete successfully against charter operators but should have the flexibility to operate charters as well.

9. Both route protection and positioning charges are important to protect the year-round operators from losing peak period traffic to operators which do not have to make the costly investments necessary for winter operations.

During cross-examination by Ms. Burnham, Commission counsel, Mr. Crichton agreed that certain of the fences applied to discount fares in southern Canada are not appropriate in the north because people tend not to plan trips well in advance. It was for that reason that First Air had introduced its half fare standby. This fare has stimulated considerable travel between settlements north of Frobisher Bay. Traffic has also been stimulated through the development of Inclusive Tour packages incorporating First Air's discount fares. Mr. Crichton responded to further questions as follows:

1. About 60% of First Air's traffic in the north interlines at Frobisher Bay.

2. First Air has been able to attract a wide variety of goods for shipment south, ranging from items produced in the north, such as carvings and skins, through equipment requiring repairs, which in the past has been discarded, to empty gas cylinders, which used to be shipped south on the sea-lift.

3. In the airline's northern service, revenues are split about 50-50 between scheduled and charter activities.

4. First Air is faced with extensive charter competition in the north. Much of the work is of a

contract nature to which positioning charges do not apply.

5. In estimating its costs, First Air separates costs in the north from those in the south to the extent that this can be done. It operates on a profit centre basis with costs and revenues for each department being monitored closely.

6. Fuel accounts for 25 to 30% of total operating costs for its scheduled operations in the north. Elimination of fuel taxes would have a significant effect on the fares charged.

7. In evaluating whether particular markets may benefit from competition, the Air Transport Committee should consider each case on its merit, including an examination going beyond an analysis simply of statistical data. It should not use criteria of the type presented by Mr. Engle in Frobisher Bay as these are inappropriate.

Panel Representing Nordair Ltd.

- Roland G. Lefrançois, Chairman
- Dominique Prinet, Vice-President, Marketing
- Paul Pelletier, Vice-President, Quebec Region and Arctic
- Moira Hudgin, Senior Manager, Tariffs and Regulatory Affairs

The panel commented on earlier evidence as follows:

1. The food-mail system is available throughout the north. It is used extensively at places like Kuujjuaq and Poste-de-la-Baleine but not at Frobisher Bay because Nordair has a special food rate that is lower than the mail rate to that location.

2. The comparisons between fares charged by Nordair and Pacific Western introduced by Mr. Patterson in Frobisher Bay ignore important differences in the routes compared. For example, PWA is able to operate passenger aircraft rather than combination aircraft between Edmonton and places like Yellowknife and Inuvik because the passenger volumes are much larger than those between Montréal and Frobisher Bay or Kuujjuaq. If Nordair had the same passenger volumes as PWA, it would be able to reduce passenger fares.

3. If Nordair were to reduce its economy fares as suggested by Mr. Patterson, it would have to increase its discount fares and its cargo rates to compensate for the lost revenue. This would affect everyone living in the north, whereas the economy fares are generally paid by governments or businesses.

SUMMARIES OF WRITTEN SUBMISSIONS*

* Written submissions sent to the Committee at the request of the Panel are not included. These dealt with airport infrastructure (discussed in Chapter 6 of the Report) and information relating to carrier operations. Submissions read into the record during the Hearing are also excluded.

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SEPT-ÎLES, QUEBEC, WEDNESDAY JUNE 13

Lauréat Méthot, Services aux malades de la Basse-Côte-Nord

Mr. Méthot asserted that air services on the North Shore are poor. He cited some examples of delays and denied boardings that involved persons in need of medical attention. According to Mr. Méthot, the government must ensure the availability of services to sick persons. He suggested that a carrier make a commitment to provide such services before it is issued route authority.

RAE LAKES, NORTHWEST TERRITORIES, MONDAY JUNE 18

Charlie Chocolate, Settlement Secretary, Rae Lakes Dene Council

Mr. Chocolate highlighted the unsafe conditions of the existing air strip at Rae Lakes and the unlikelihood of upgrading the strip in the near future. The situation was considered intolerable in view of the community's dependence on air for most of its needs, including mail and medical evacuation. The Panel's assistance was requested in remedying the current situation.

WHITEHORSE, YUKON, MONDAY JUNE 25

April Neave, Manager, Whitehorse Chamber of Commerce

Ms. Neave advised the Panel of the Chamber's participation in the earlier Hearing regarding domestic charters and air fare issues. It was requested that the presentation made at that time be considered with respect to the current Hearing in the matter of the cost of transportation in northern and remote areas.

Note: The recommendations of that earlier presentation were read into the record at Dawson.

LONGUE-POINTE-DE-MINGAN, QUEBEC, TUESDAY JUNE 26

Pierre Cousineau, maire, Corporation municipale de Longue-Pointe-de-Mingan

Mr. Cousineau advised the Commission that the Corporation municipale de Longue-Pointe-de-Mingan supports Lauréat Méthot's (Services aux malades de la Basse-Côte-Nord) position outlined in a letter dated June 13, 1984. He then made the following points:

1. The location of the runway at Havre-St-Pierre is unsuitable, making winter operations difficult.

2. The Havre-St-Pierre airport has been mismanaged at considerable expense.

3. The members of the Jet Pilots Association refuse to land at Havre-St-Pierre.

4. Other carriers are in a position to operate services superior to those offered by Quebecair on the North Shore.

Mr. Cousineau concluded by stating that the airport at Havre-St-Pierre should be closed so as to increase utilization of the airport at Longue-Pointe-de-Mingan.

WATSON LAKE, YUKON, WEDNESDAY JUNE 27

Town Council, Town of Watson Lake

The Town of Watson Lake's brief initially acknowledged support of the submissions made by the Cities of Whitehorse and Dawson Creek. In specific regards to Watson Lake, the brief commented on three areas: quality of service, frequency of service and cost of service. Quality and frequency of service were considered adequate; however, requirements to remove any inequities in service quality at full fare levels between northern services and southern services and for carriers to promptly and efficiently adjust service frequency to the demands of the market were advocated. Costs of air fares were the major concern and these were considered too high with access to discount prices too limited.

SPENCE BAY, NORTHWEST TERRITORIES, FRIDAY JUNE 29

Shirley Barnes, Spence Bay Nursing Station

Ms. Barnes indicated that many members of the community had expressed doubts as to whether basic concerns had been adequately addressed during the hearing process. Ms. Barnes stressed that Canada already recognized the high value of the role of the inhabitants of Canada's north in protecting Canada's future territorial rights through the maintenance of existing settlements at a high cost. Given this value, Ms. Barnes asserted that northern residents did not have to accept the lower standards of air transportation services evidenced by old, unpressurized and unsafe equipment, exorbitant fares, cancelled schedules, mishandled baggage and freight, and poor cabin service. Ms. Barnes indicated that such substandard services become even more onerous and unacceptable when viewed from the perspective of the often unrepresented aged, ill or handicapped living in northern settlements and those whose mother tongue is not English.

YELLOWKNIFE, NORTHWEST TERRITORIES, TUESDAY JULY 3

Don Sian, Mayor, City of Yellowknife

Mr. Sian requested that the evidence presented by the City of Yellowknife at the public hearing on domestic charters and air fare issues form part of the record for the review of air transportation in northern and remote areas.

Mr. Sian then provided documentation regarding a resident's claim against PWA for shipping damages as further evidence of unsatisfactory air service. Mr. Sian concluded by recommending partial deregulation so as to allow the market to set service and fare levels.

ATTAWAPISKAT, ONTARIO, THURSDAY JULY 5

John B. Nakogee, Chief, Attawapiskat Band

Mr. Nakogee highlighted the requirement for adequate transportation services to provide even the most basic of human needs such as access to food-stuffs necessary for a proper diet. High transportation costs viewed in such perspective were deemed unacceptable. The determination of network service points,

frequencies and fares by purely financial considerations of profit and loss was thus considered unwarranted. Mr. Nakogee recommended that the human element should have a high degree of consideration in establishing transportation services. He also recommended that representatives of the public affected by transportation changes have a participatory role in the development of such changes.

Fred Wesley, Acting Band Development Officer, Attawapiskat Band

Mr. Wesley characterized the Attawapiskat area as one which was currently experiencing a transportation crisis. Reference was made to the various differences in fuel costs between the area and others and the deterioration of rail service as an alternative to air. It was the opinion of Mr. Wesley that studies done to date regarding the economic, social and cultural condition of the area offered only partial solutions to pacify local needs and political concerns. Mr. Wesley called for government action to implement a northern policy of immediate and long-term actions to solve the local transportation crisis and restore the economic, social and cultural aspects of northern communities.

HAVRE-ST-PIERRE, QUEBEC, SATURDAY JULY 7

Gilbert Caron, secrétaire-trésorier et coordonnateur à l'aménagement, municipalité régionale de comté de la Minganie

Mr. Caron summarized the mandate of the municipalité régionale de comté de la Minganie. The organization is entrusted with establishing a master plan for land development in the area. Mr. Caron stated that when it comes to transportation, the people living on the North Shore are treated like second class citizens. He indicated that air services in the region do not meet the needs nor the aspirations of the population. He added that rates are very high. For these reasons, the municipalité régionale de comté de la Minganie supported deregulation of airline fares.

LABRADOR CITY, NEWFOUNDLAND, THURSDAY JULY 12

Leonard Leyte, Councillor, Town of Labrador City

Mr. Leyte reaffirmed the Town of Labrador City's support of the submission of the Joint Councils Group of Labrador. He indicated concern about the lack of daily air

service available via EPA to points in Newfoundland in view of a possibly seasonally oriented requirement to book at least two or three weeks in advance to guarantee a seat. This lack of service frequencies in the face of apparent demand was also cited as occurring with Quebecair, the other major carrier servicing the area.

Mr. Leyte recommended establishing and publishing justifiable and desirable standards for air service levels for remote and northern points. These standards would be monitored by the public and the CTC. He also expressed concern over the effect of any cost-saving measures brought about by deregulation in the south on services in the north. The possibility of commuter-type equipment and network systems replacing existing jet services was viewed as unacceptable. In an effort to improve networks in the area, he also recommended free access by both major airlines to all points in Labrador connecting to Montréal.

NATASHQUAN, QUEBEC, FRIDAY JULY 13

Thérèse C. Landry, secrétaire-trésorière, Corporation municipale de Natashquan

Ms. Landry presented several recommendations regarding fares and rates on behalf of the Corporation municipale de Natashquan:

1. A 50% reduction in fares should be offered to frequent travellers (persons who use air services at least six times a year).

2. Discount fares should be offered during the peak summer season so as to stimulate tourist travel in the region.

3. A normal economy fare should apply when no advance booking is required.

4. Advance booking requirements attached to fares should be enforced.

5. Since air services are being subsidized by government, special rates should apply for the transportation of food-stuffs and medical supplies.

HAY RIVER, NORTHWEST TERRITORIES, FRIDAY JULY 13

Ron Courtoreille, Mayor, Town of Hay River

Mr. Courtoreille urged the maintenance of regulation of price and entry/exit on air routes in the north. He also urged the Commission to review the reasonableness of existing rate structures in the north as well as minimize any restrictions on a carrier's ability to offer discount fares.

REGINA, SASKATCHEWAN, THURSDAY JULY 19

Honourable James W. Garner, Minister, Saskatchewan Department of Highways and Transportation

Mr. Garner re-emphasized the content of the Province of Saskatchewan's presentation made at the public hearing on domestic charters and air fare issues, wherein the fundamental importance of improved air transportation services and associated pricing to the economic development and tourism potential of the Province was expressed. From the view of northern services, Mr. Garner indicated such issues as improved air service and associated pricing was of equal if not greater importance particularly in view of the sparseness and traditional weak economy of the area and the advent of new economic opportunities associated with uranium mining developments.

Mr. Garner recognized the economic reality that the revenue generating ability of services to the north were affected by both marginal utilization of the service and the inability of northern residents to pay compensatory rates. He also noted, however, that scheduled services that had been available in the past to points such as Descharme Lake, Pelican Narrows, Sandy Bay, Île à la Crosse, Buffalo Narrows, La Loche and Cluff Lake were no longer in service. The additional charter services offered by scheduled and other carriers were deemed too costly an alternative to provide an acceptable means of inter-regional travel for the public in such areas.

The current mining and tourism potential of northern Saskatchewan offers many opportunities to the local residents. In order for their potential to be fully developed, adequate scheduled air services are required. While exploration interests may presently satisfy their needs for travel in the north by contract charter services, necessary inter-regional services will not be available to local residents until scheduled services are established.

He concluded by encouraging the establishment of a federal policy which addresses the difference between air service in northern and remote areas of Canada and the south and develops specific programs to ensure improved air service at affordable prices to northern residents. It was suggested that such a policy would specifically:

1. Establish programs, which through the proper appreciation of the unique transportation needs of the north, would support local air service improvements.

2. Allow the north to participate fully in any of the benefits garnered from a deregulation of services in the south.

3. Make available to the north a simplified regulatory process considered in the deregulation policy for the south.

VANCOUVER, BRITISH COLUMBIA, MONDAY JULY 23

G.R. Heinmiller, Counsel for Canadian Pacific Ltd.

Regarding CP Air's position on deregulation in the north, Mr. Heinmiller stated that "the economic fragility of northern air services militates in favour of their continued regulation with the evolution of a well monitored increased flexibility as regards pricing and entry/exit occuring only where it can be demonstrated that northern markets can support such flexibility".

NORMAN WELLS, NORTHWEST TERRITORIES, FRIDAY JULY 27

James H. Smellie, Counsel for Nahanni Air Services Ltd.

Mr. Smellie outlined the current operations of Nahanni Air Services, from its base in Norman Wells. Nahanni provides charter services in Groups A, B, C and D, unit toll services in Groups A, B and C and serves the northern communities of Fort Franklin, Fort Norman, Fort Good Hope and Inuvik.

Mr. Smellie then gave Nahanni's opinions on various aspects of deregulation and existing air service infrastructure in northern and remote areas. Due to limited traffic available to northern local service air carriers in some markets, the long distances involved in travel between points and extremely high

operating costs, Nahanni is in favour of the retention of a regulatory environment. Specifically, Nahanni advocated some form of protection of local unit toll carriers through route protection or subsidy. Route protection was deemed necessary to allow local service carriers to sustain the commitment and investment in their operations. Given the vital role of charter services in northern and remote areas, Nahanni also supported the retention of the Class 4 Positioning Charges Regulations.

In order to meet consumer concerns regarding rates and services as well as to allow carriers a reasonable return on their investment, Mr. Smellie made the following points:

1. Airport user fees in the north are inequitable and should be eliminated; a direct subsidy program should be instituted for northern airports.

2. High costs, which are passed on to the consumer, and conditions on leasing arrangements for Crown land near airstrips deter airport facility development.

3. Concessions should be considered on fuel taxes for commercial operators.

4. The Northern Tax Benefit Remission Order should be retained and made permanent.

5. Flexible tariff filing procedures should be introduced.

6. Past rate increase ceilings have been unfair.

With regard to existing airstrip facilities in the north, Mr. Smellie noted the concerns placed on the record at Fort Simpson by various northern communities. He also indicated that communities such as Fort Franklin, Fort Good Hope and Colville Lake require upgrading of existing airstrips and ancillary facilities. As for the Norman Wells airport, Mr. Smellie outlined current deficiencies as well as flaws in plans to upgrade the facility. A plan to increase the number of qualified aircraft maintenance engineers in the north was also suggested.

Within the spectre of continuing regulation, Mr. Smellie suggested that the system could be improved through streamlining tariff filing and licensing procedures as well as by reducing the burden on the carriers to report duplicate operating statistics.

GANDER, NEWFOUNDLAND, TUESDAY JULY 31

R.W. McCabe, Secretary, Eastern Provincial Airways Ltd.

Mr. McCabe stressed the need to recognize the economic realities of higher operating costs and limited demand when considering air transportation services in the north. As an example of higher operating costs it was noted that in the north, EPA faces higher employee wage and benefit costs, vehicle upgrading costs and fuel costs. With regards to demand, it was indicated that the sparse population in the communities of Labrador/Wabash, Happy Valley/Goose Bay and Churchill Falls served by EPA in Labrador and their surrounding areas yields a finite demand for air service.

Notwithstanding declining traffic, Mr. McCabe pointed out that fare increases instituted by EPA in the north have been less than in the south over the past several years. The fare differential between north and south is reported to approximate 7%. In an effort to control fare increases, limited frequency cut-backs have been realized in order to maintain load factors at a viable level. In view of the high operating costs and limited demand, Mr. McCabe recommended the retention of regulation to provide existing carriers sufficient traffic to maintain frequencies and to offset the higher operating costs.

With respect to discount fares, Mr. McCabe indicated that EPA has, over the past nine years, applied all of its seat sale products to its northern services with the exception of certain charter competitive fares available only in the Halifax-Toronto market. Surveys conducted in October, 1983 and February, 1984 were reported to indicate 40.0% and 47.7% utilization of discount seats allocated on EPA's northern flights.

MOOSONEE, ONTARIO, WEDNESDAY AUGUST 1

Jerry McAuley, Chairman, Moosonee Development Area Board

Mr. McAuley commented primarily on existing air terminal and runway conditions at Moosonee Airport. He reported that the Moosonee Airport was completed in 1970 through a joint effort of the provincial and federal governments. The airport is now licensed in the name of the Moosonee Development Area Board, which is responsible for its management. The airport serves the communities of Moosonee, Moose Factory and surrounding areas.

Mr. McAuley asserted that the airport's runway requires long overdue improvements. Frost problems create unsafe soft

spots and damage to runway lights. Drainage problems are also apparent as well as further surface problems due to inadequate gravel cover. He emphasized that other communities with less traffic than Moosonee enjoyed the benefits of better facilities such as runways with asphalt surfaces.

Mr. McAuley then explained that the high costs of air transportation in the north were, in part, attributed to the poor airport facilities. Air service operators have incurred heavy repair and maintenance costs associated with damage caused from using the poor facilities. These costs in turn have to be passed on to the users through higher passenger fares and cargo rates. The higher fares and rates are considered unfair in view of the fact that many of the users have no other choice in transportation services available to them.

Mr. McAuley concluded by addressing the following concerns: undesirable scheduling, inadequate spacing in seating configurations making air travel uncomfortable and unsafe, and the requirement for more approach aids as a priority over non-directional beacons.

WHITEHORSE, YUKON, FRIDAY OCTOBER 12

Honourable Dan Lang, Minister of Community and Transportation Services, Government of Yukon

Mr. Lang started by highlighting certain conclusions of a consultant's report on the economic viability of a Yukon-based regional air service. The study concluded that Trans North Air, Yukon's regional air carrier, is well-managed and provides reliable scheduled air service in Yukon. However, it was noted that due to low traffic volumes resulting from the depressed state of the economy, a heavy debt load and the use of out-dated aircraft, Trans North Air cannot achieve economic viability and full cost recovery for some time. The carrier is presently in the process of rationalizing its fleet mix so as to meet this objective and provide faster, more convenient service throughout its system.

Mr. Lang pointed out that the ability of Trans North Air to sustain short term losses would be jeopardized by increased competition. Furthermore, the Government of Yukon is concerned that deregulation in the north would facilitate market entry on the Whitehorse/Inuvik route. This could result in the termination of services between Old Crow and Dawson on the one hand and Mayo and Whitehorse on the other. The Government of Yukon wishes to maintain and encourage the development of strong transportation links between all of Yukon's important communities and therefore recommends that the CTC continue to use the test of

present and future public convenience and necessity when considering licence applications for scheduled services.

Mr. Lang emphasized the importance of scheduled jet service between southern Canada and Watson Lake. The Government of Yukon believes that the present regulatory regime would prevent the deterioration of this service.

It is the position of the Government of Yukon that the essential elements of the economic regulation governing air services in the north should remain unchanged for a period of two years, at which time a review should be undertaken. Mr. Lang stated that this would achieve the following objectives:

1. Allow time for Trans North Air to enhance its financial position.

2. Permit the study of the effects of deregulation in the south and possible implications for the north.

3. Enable the CTC to examine the Essential Air Service program in the United States for possible application in the north under a deregulated environment.

4. Allow time for a recovery in Yukon's economy after which the economic climate would be more conducive to deregulation and competition amongst scheduled carriers.

However, Mr. Lang recommended some changes within the existing regulatory system, as follows:

a) the abolition of positioning charges, particularly for air traffic in the lighter weight groupings; and

b) full flexibility for downward pricing.